

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCE

	For The Years Ended	
	June 30,	
	1996	1995
BALANCE, Beginning of Year	\$ 9,900,958	\$ 9,792,146
Revenues and Gains in Excess of Expenses and Losses	225,330	108,812
BALANCE, End of Year	\$10,126,288	\$ 9,900,958

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
UNAUDITED CONDENSED SCHEDULE OF INSURANCE
For The Year Ended June 30, 1996

<u>COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRES</u>
<u>PROPERTY, BOILER AND MACHINERY</u>		
All Buildings, Personal Property, Boiler and Machinery and Business Income		
All Buildings (90% Coinsurance) and Contents, Equipment, Etc.		
Blanket Coverage Ranges		
Low	\$ 4,063,200	11/1/96
High	9,487,000	
Non-Blanket Coverage Ranges		
Low	10,000	11/1/96
High	8,000,000	
Autos - Vehicles - Plus Collision	1,000,000	11/1/96
<u>DIRECTORS' AND OFFICERS' LIABILITY</u>	1,000,000	9/8/96
<u>COMMERCIAL CRIME</u>		
Employee Dishonesty	100,000	11/1/96
Forgery and Alteration	10,000	11/1/96
Theft, Disappearance and Destruction	10,000	11/1/96
Robbery and Safe Burglary	10,000	11/1/96
<u>FLOOD</u>		
Building	275,000	11/6/96
Contents	120,800	11/6/96
<u>WORKMEN'S COMPENSATION</u>	1,000,000	1/1/97
<u>BOARD ACCIDENT</u>		
Accidental Death	10,000	6/13/97
Medical Expense	10,000	6/13/97

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A

LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES (Continued)

For The Year Ended June 30, 1996
(With Comparative Totals For The Year Ended June 30, 1995)

	Salaries and Wages	Employee Benefits	Purchase Services	Supplies and Other	1996 Totals	Salaries and Wages	Employee Benefits	Purchase Services	Supplies and Other	1995 Totals
FISCAL SERVICES										
Business Office	128,231	27,012	-	22,853	178,096	127,892	24,756	-	57,014	209,662
Data Processing	23,300	6,369	45,653	15,809	91,111	27,377	461	44,115	27,847	99,800
Collections	42,171	6,389	-	69,302	117,861	50,180	8,381	-	46,489	105,050
Insurance	52,301	9,272	-	217	61,790	41,943	2,531	-	156	44,630
General Accounting	71,296	16,375	29,434	6,015	123,119	67,942	9,178	38,019	6,761	121,900
	<u>317,299</u>	<u>65,416</u>	<u>75,067</u>	<u>114,196</u>	<u>571,978</u>	<u>315,334</u>	<u>45,307</u>	<u>82,134</u>	<u>158,267</u>	<u>581,042</u>
ADMINISTRATIVE SERVICES										
Administration	96,328	20,507	359,605	449,143	925,583	122,161	29,256	419,230	481,771	1,052,418
Nursing Administration	141,796	19,920	-	4,459	166,175	189,598	(15,579)	-	9,097	183,116
Public Relations	54,664	9,870	-	160,906	225,440	78,167	12,064	-	65,218	155,449
Patient Relations	31,022	4,633	-	2,584	38,240	35,241	(191)	-	5,369	40,419
Human Resources	47,894	8,079	42,000	27,411	125,384	43,810	3,409	38,409	51,369	136,997
	<u>371,704</u>	<u>63,010</u>	<u>401,605</u>	<u>644,504</u>	<u>1,480,823</u>	<u>468,977</u>	<u>28,959</u>	<u>457,639</u>	<u>612,824</u>	<u>1,568,399</u>
	<u>\$ 4,839,767</u>	<u>\$ 796,787</u>	<u>\$ 4,703,841</u>	<u>\$ 3,458,600</u>	<u>\$ 13,798,995</u>	<u>\$ 5,174,670</u>	<u>\$ 602,020</u>	<u>\$ 3,463,576</u>	<u>\$ 3,486,299</u>	<u>\$ 12,726,565</u>
DEPRECIATION EXPENSE					914,773					904,646
PROVISION FOR BAD DEBTS					1,034,972					828,054
INTEREST EXPENSE					<u>217,435</u>					<u>255,422</u>
					<u>\$ 15,966,175</u>					<u>\$ 14,714,687</u>

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF REVENUES (Continued)

OTHER OPERATING REVENUE	For The Years Ended	
	June 30,	
	1996	1995
Clinics	\$ 812,809	\$ 843,716
Employee Meals	39,097	38,046
Miscellaneous	22,150	15,644
Medical Records Revenue	12,429	10,842
Guests Meals	5,850	5,654
Silver Reclamation from X-Ray Films	231	-
Insurance Refund	-	30,427
Total Other Operating Revenue	\$ 892,566	\$ 944,329

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT (Continued)

Interest cost incurred on borrowed funds during the period of construction or the outright purchase of capital assets is capitalized as a component of the cost of acquiring those assets.

CASH AND INVESTMENTS

Cash deposits with financial institutions, which include cash balances whose use is limited or restricted, amounted to \$1,162,528.

The bank balance was \$1,226,603, which, at the balance sheet date, was entirely insured or entirely collateralized by securities held by pledging bank's trust department in the Hospital's name.

NON-DIRECT RESPONSE ADVERTISING

The Hospital expenses advertising costs as incurred.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE B

ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited or restricted is set forth in the following table. Investments are stated according to the policy described in Note A.

	June 30,	
	1996	1995
By Agreements with Third-Party Payors for Funded Depreciation		
U.S. Treasury Obligations	\$ 1,637,007	\$ 1,245,490
Franklin Custodial Funds		
U.S. Government Series	1,026,590	1,048,009
State of Louisiana Bonds	-	265,657
	2,663,597	2,559,156

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**LAFOURCHE PARISH HOSPITAL
SERVICE DISTRICT NO. 1**

D/B/A

LADY OF THE SEA GENERAL HOSPITAL

GALLIANO, LOUISIANA

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

Audit of Financial Statements

June 30, 1996 Date DEC 18 1996
and
June 30, 1995



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To the Board of Commissioners
Lafourche Parish Hospital Service District No. 1
d/b/a **Lady of the Sea General Hospital**
Galliano, Louisiana

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**, a component unit of the Lafourche Parish Police Jury, as of and for the years ended June 30, 1996 and 1995, as listed in the table of contents. These financial statements are the responsibility of **LAFOURCHE PARISH SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 1996 on our consideration of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**'s internal control structure and a report dated August 30, 1996 on its compliance with laws and regulations.

LaPorte, Sehart, Romig & Hand

A Professional Accounting Corporation

August 30, 1996

A Professional Accounting Corporation
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International Affiliation with Accounting Firms Associated, Inc.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
BALANCE SHEETS

ASSETS

	June 30,	
	1996	1995
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 806,453	\$ 747,912
Assets Whose Use is Limited - Required for Current Liabilities	455,000	445,000
Patient Accounts Receivable, Net of Estimated Uncollectibles of \$681,686 for 1996, and \$621,964 for 1995	2,840,537	2,337,325
Estimated Third-Party Payor Settlements	-	392,467
Inventory Supplies - at Cost	422,939	429,978
Prepaid Expenses	114,889	118,799
Other Receivables	234,998	85,595
Total Current Assets	4,874,816	4,557,076
ASSETS WHOSE USE IS LIMITED OR RESTRICTED		
By Agreements with Third Party Payors for Funded Depreciation	2,663,597	2,559,156
Under Indenture Agreement	543,537	524,884
By Board for Indenture Reserves	113,185	103,288
Total Assets Whose Use is Limited	3,320,319	3,187,328
Less: Assets Whose Use is Limited and that are Required for Current Liabilities	455,000	445,000
Noncurrent Assets Whose Use is Limited	2,865,319	2,742,328
PLANT AND EQUIPMENT, NET	6,518,453	6,966,532
OTHER ASSETS		
Construction in Progress	300,770	336,855
Unamortized Bond Costs	14,813	17,593
Other Assets	57,908	31,089
Total Other Assets	373,491	385,537
Total Assets	\$ 14,632,079	\$ 14,651,473

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

LIABILITIES AND FUND BALANCE

	June 30,	
	1996	1995
CURRENT LIABILITIES		
Current Installments of Long-Term Debt	\$ 455,000	\$ 445,000
Accounts Payable - Trade	520,494	570,852
Accrued Architect Fees	61,336	61,336
Accrued Salaries and Employee Benefits	653,702	456,694
Accrued Interest on Long-Term Debt	52,237	57,607
Payroll Taxes Payable	1,358	3,971
Current Obligations of Capital Leases	132,081	144,959
Estimated Third Party Settlements	227,939	-
Total Current Liabilities	2,104,147	1,740,419
LONG-TERM LIABILITIES		
Bonds Payable	2,310,000	2,765,000
Long-Term Obligations of Capital Leases	210,012	342,094
Deferred Revenue	49	-
Total Long-Term Liabilities	2,520,061	3,107,094
FUND BALANCE		
Fund Balance	10,126,288	9,900,958
Unrealized Loss on Noncurrent Marketable Securities	(118,417)	(96,998)
Total Fund Balance	10,007,871	9,803,960
Total Liabilities and Fund Balance	\$ 14,632,079	\$ 14,651,473

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	June 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES		
Revenues and Gains in Excess of Expenses and Losses	\$ 225,330	\$ 108,812
Adjustments to Reconcile Revenues and Gains in Excess of Expenses and Losses to Net Cash Provided by Operating Activities and Gains and Losses:		
Depreciation and Amortization	914,773	904,646
Provision for Bad Debts	1,034,972	828,054
Gain on Sale of Fixed Assets	-	(3,849)
Loss on Term of Service - Leasehold Improvements	-	46,029
(Increase) in Accounts Receivable	(1,524,351)	(1,051,116)
(Increase) Decrease in Estimated Third-Party Payor Settlements	620,406	(134,072)
(Increase) Decrease in Other Current Assets	(149,403)	83,418
(Increase) Decrease in Inventories	7,039	(41,629)
(Increase) Decrease in Prepaid Expenses	3,664	(6,674)
(Decrease) Increase in Accounts Payable	(63,236)	54,027
(Decrease) Increase in Accrued Salaries and Employee Benefits	197,001	(221,585)
(Decrease) in Accrued Interest on Long-Term Debt	(5,370)	(8,615)
(Decrease) in Payroll Taxes Payable	(2,613)	(1,186)
Net Cash Provided by Operating Activities and Gains and Losses	1,258,212	556,260
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash (Invested in) Withdrawn from Other Assets	(26,821)	29,489
Cash (Invested in) Withdrawn from Assets Whose Use is Limited	(154,410)	1,350,236
Proceeds from Sale of Fixed Assets	-	3,849
Cash Paid on Construction in Progress	(49,025)	(60,500)
(Decrease) in Retainage Payable	-	(35,000)
Decrease in Restricted Cash	-	149,158
(Decrease) in Accrued Architect Fees	-	(74,820)
Purchases of Plant and Equipment	(379,455)	(623,670)
Net Cash Provided by (Used in) Investing Activities	(609,711)	738,742

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

INTRODUCTION

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL (Hospital), is an acute care facility created pursuant to Louisiana revised statutes of 1950, Title 46, Chapter 10, and Ordinance No. 863 of Lafourche Parish Council adopted January 27, 1953. It is the Hospital's mission to provide its community with high quality care and education in a friendly, caring and professional manner.

The administration of the Hospital is governed by a Board of Commissioners consisting of five members appointed by the Lafourche Parish Police Jury in accordance with the terms of office set forth in Louisiana Revised Statute 46:1053 and in Section 24:300 (C) of Sub-Chapter "G" of the Code of Ordinance of the Lafourche Parish Police Jury.

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Hospital have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB), is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Lafourche Parish Police Jury is the financial reporting entity for Lafourche Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 14 established criteria for determining which component units should be considered part of the reporting entity for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the police jury to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)

	For The Years Ended	
	June 30,	
	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on Capital Leases	(144,960)	(112,474)
Repayment of Notes Payable - Line of Credit	-	(200,000)
Repayment of Bonds and Certificates of Indebtedness	(445,000)	(430,000)
Net Cash (Used in) Financing Activities	(589,960)	(742,474)
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,541	552,528
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	747,912	195,384
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 806,453	\$ 747,912
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Year For Interest	\$ 222,805	\$ 264,037
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Unrealized Gain (Loss) on Investment Securities	\$ (21,419)	\$ 41,309
Assets Acquired Through Capital Leases	-	192,662
Capital Lease Obligations	-	192,662
Construction in Progress Capitalized During the Year	85,110	299,663

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

Marketable equity securities are carried at the lower of cost or market at the balance sheet date. Investments in debt securities are carried at amortized cost and are adjusted for impairments in value that are deemed to be other than temporary. Investment income is reported as a nonoperating gain.

Held-to-maturity securities, which include any debt security for which the Hospital has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the interest method over the period to maturity.

Interest and dividends on investments in debt and equity securities are included in nonoperating income when earned.

INVENTORY

Inventory is valued at the lower of cost or market using the first-in, first-out method.

INCOME TAXES

The Hospital is a governmental unit which has registered itself as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

STATEMENT OF REVENUES AND EXPENSES

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include assets set aside by the Board of Commissioners for future capital improvements and future indenture agreements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by trustees under indenture agreements and self-insurance trust agreements.

PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method.

Maintenance, repairs and minor replacements and improvements are expensed as incurred. Major replacements and improvements are capitalized at cost.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF REVENUES

	For The Years Ended	
	June 30,	
	1996	1995
PATIENT SERVICE REVENUES		
Psychiatric Program	\$ 4,497,919	\$ 3,074,000
Laboratory	2,618,904	2,317,273
Pharmacy	2,589,059	2,283,670
Cardiopulmonary	1,829,988	1,451,004
Radiology	1,333,363	1,307,910
Operating Room and Recovery Room	1,090,534	1,252,204
Room and Nursing	1,183,962	1,144,642
Home Health	1,513,551	1,125,685
Emergency and Treatment Rooms	1,189,195	1,068,138
Dialysis	844,466	890,695
Anesthesiology	387,353	491,381
Medical Supplies - Central Supply	538,901	481,151
Intensive Care	433,346	476,709
Cat Scan	486,758	450,097
E.K.G.	178,733	170,348
Ultrasound	157,377	150,544
M.R.I.	166,024	124,410
Nuclear Medicine	99,192	78,213
Physical Therapy	33,220	26,450
Mammography	23,139	26,389
Social Service	16,704	13,500
E.E.G.	10,071	8,569
Cardiology	-	6,135
Speech Therapy	135	405
	21,221,893	18,419,522
Totals		
Less: Contractual Adjustments	6,918,184	5,492,594
Net Patient Service Revenue	\$ 14,303,709	\$ 12,926,928

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE B

ASSETS WHOSE USE IS LIMITED OR RESTRICTED (Continued)

	June 30,	
	1996	1995
Under Indenture Agreements		
Cash and Cash Equivalents	192,554	175,688
U.S. Treasury Obligations	350,983	349,196
	543,537	524,884
By Board for Indenture Reserves		
Cash and Cash Equivalents	12,522	2,404
U.S. Treasury Obligations	100,663	100,884
	113,185	103,288
	\$ 3,320,319	\$ 3,187,328

NOTE C

NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and defined capital costs 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 by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Notices of amount of Program Reimbursement have been issued by the Medicare Fiscal intermediary for cost reporting periods ended June 30, 1994.

LAFORCHIE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE C

NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Commencing July 1, 1994, inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Prior to June 30, 1994, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed 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. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 1991. The Hospital's Medicaid cost report for 1992 has been settled without audit.

The Hospital has entered into payment agreements with Blue Cross and other commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE D

DEFERRED COMPENSATION PLAN AND PENSION PLAN

The Hospital has a plan where qualifying employees may defer certain amounts of their salary. The Hospital incurs no cost under this plan.

Effective November 1, 1995, all full-time employees who had one year of continuous service were eligible to participate in the Hospital's retirement plan. Prior to November 1, 1995, full-time employees were required to have three years of continuous service in order to be eligible for the plan. The plan is a defined contribution, money purchase plan. The plan is voluntary and there is no requirement for employees to contribute to the plan. Eligible employees may contribute up to 16% of their annual salary during their first year in the plan and 20% thereafter. Part-time employees can participate in the plan, but are limited to only employee contributions. Employees are 100% vested at the time of their enrollment.

The Hospital funds the plan based on a percentage of eligible employees' annual salary. This percentage is determined by the Board, and is currently 3.25%. There is no prior funding required. The Hospital's contribution to the plan amounted to \$104,050 for June 30, 1996 and \$86,326 for June 30, 1995.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE E

LONG-TERM DEBT

On April 1, 1976, bonds totaling \$4,480,000 were issued by the Hospital Service District No. 1 of the Parish of Lafourche, State of Louisiana. Proceeds from the sale of these bonds were restricted for construction of the Hospital. The bonds are in denominations of \$5,000 each, maturing serially in the years 1978 through 2001, inclusive. Interest is payable on April 1 and October 1, each year. The average interest rate is 6.519%. The bonds and interest will be paid by an annual Ad Valorem tax levied on property owners. The balance owed on the bonds was \$1,580,000 and \$1,850,000 at June 30, 1996 and June 30, 1995, respectively.

On February 3, 1981, revenue bonds totaling \$1,685,485 were issued in a private sale to the National Oceanic and Atmospheric Administration, Office of Coastal Zone Management, bearing interest at a rate of 6% per annum and maturing over a period of twenty-five years, with interest payable semi-annually on February 3 and August 3. The balance owed on the bonds was \$705,000 and \$790,000 at June 30, 1996 and June 30, 1995, respectively.

On April 1, 1992, bonds totaling \$1,000,000 were issued by the Hospital Service District No. 1 of the Parish of Lafourche, State of Louisiana. Proceeds from the sale of these bonds were restricted to acquiring and constructing additions and improvements to Hospital facilities, including the dialysis unit, equipment and furnishings. The bonds are in denominations of \$5,000 each, maturing serially in the years 1993 to 2002, inclusive. Interest is payable on April 1 and October 1, each year. The interest rate is 7.0%. The balance owed on the bonds was \$480,000 and \$570,000 at June 30, 1996 and June 30, 1995, respectively.

Scheduled principal repayments on long-term debt are as follows:

1997	\$ 455,000
1998	480,000
1999	515,000
2000	535,000
2001	500,000
Thereafter	<u>280,000</u>
	<u>\$ 2,765,000</u>

NOTE F

RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Hospital is a member of two separate trust funds established by the Louisiana Hospital Association that encompasses self-insurance of (1) Hospital professional liability and comprehensive general liability and (2) Statutory workers' compensation. The Hospital continues to carry commercial insurance for all other risk of loss.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE F

RISK MANAGEMENT (Continued)

The trust funds are pooling arrangements whereby there is a sharing of risks among the participants of the trust funds. The Hospital reports its premiums as insurance expenditures and expenses these premiums over the pro rata periods involved. The trust fund for the professional liability and comprehensive general liability reflects a fund balance of \$6,160,249 at October 31, 1995. The trust fund for statutory workers compensation reflects a fund balance of \$1,475,170 at December 31, 1995. The management of the fund has complete control over the rate setting process.

NOTE G

COMMITMENTS

- **Capital Leases**

The Hospital is the lessee of various medical equipment under capital leases expiring in various years through June 30, 2001. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for the years ended June 30, 1996 and June 30, 1995.

Depreciation on assets under capital leases charged to expense in fiscal years ended June 30, 1996 and 1995 was \$90,305 and \$63,256, respectively.

Minimum future lease payments under capital leases as of June 30, 1996 for each of the next five years and in the aggregate are:

Year Ended June 30,

1997	\$	132,081
1998		112,745
1999		75,824
2000		12,838
2001		8,607
Thereafter		-
		\$ 342,095

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE G
COMMITMENTS (Continued)

- **Operating Leases**

The Hospital also leases medical equipment under operating lease agreements. The total rent expense for the years ended June 30, 1996 and June 30, 1995 for equipment leased under operating leases was \$60,473 and \$40,342, respectively.

- **Purchase Agreements**

During the fiscal year ended June 30, 1995, the Hospital entered into a long-term purchase contract with 3M Medical Imaging Systems for the purchase of the Hospital's X-ray film. The term of the contract is five years, with an annual film purchase commitment of \$133,890.

As an incentive for the Hospital to enter into the purchasing contract, 3M provided the Hospital with X-ray printing equipment. This equipment had a list price of \$110,026.

The cost of this equipment is deemed to be implicitly included in the annual film purchase commitment. Based on this, the acquisition of the equipment is deemed to be through a capital lease. A portion of the cost incurred in acquiring X-ray film from 3M is applicable to reduction of the lease obligation. Minimum lease payments associated with the equipment are included in the schedule of minimum future lease payments, as presented above.

The effective minimum purchase obligations associated with the purchasing contract are as follows:

<u>Year Ended June 30,</u>	<u>Purchase Commitment</u>	<u>Amount Applied to Lease</u>	<u>Net Purchase Commitment</u>
1997	\$ 133,890	\$ 22,005	\$ 111,885
1998	133,890	22,005	111,885
1999	133,890	22,005	111,885
2000	<u>78,102</u>	<u>12,836</u>	<u>65,266</u>
	<u>\$ 479,772</u>	<u>\$ 78,851</u>	<u>\$ 400,921</u>

LAFOURCHIE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE II

CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Galliano, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of June 30, 1996:

Medicare	63%
Medicaid	7%
Blue Cross	1%
Other Commercial	16%
Private Pay Patients	<u>13%</u>
	<u>100%</u>

NOTE I

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Assets Whose Use is Limited: These assets consist primarily of cash, short-term investments, long-term investments, and interest receivable. The carrying amount reported in the balance sheet approximates fair value.

The carrying amount and fair value of the Hospital's financial instruments at June 30, 1996 are as follows:

	<u>Amount</u>	<u>Carrying Fair Value</u>
Cash and Cash Equivalents	\$ 806,453	\$ 806,453
Assets Whose Use is Limited	3,320,319	3,320,319

The carrying amount and fair value of the Hospital's financial instruments at June 30, 1995 are as follows:

	<u>Amount</u>	<u>Carrying Fair Value</u>
Cash and Cash Equivalents	\$ 747,912	\$ 747,912
Assets Whose Use is Limited	3,187,328	3,187,328

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE J

RELATED PARTY TRANSACTIONS

During the year ended June 30, 1993, the Hospital contracted with a relative of a member of the Board of Commissioners to serve as medical director of the Hospital. The contract was terminated in December 1994. During the year ended June 30, 1995, the amount paid to this physician totaled \$24,000.

NOTE K

CHARITY CARE

The Hospital does not provide for charity care upon the admission of a patient. It is only after services have been provided, and a patient claims that he cannot make payment on his account that the Hospital may consider forgiveness of the debt under its charity policy. During the years ended June 30, 1996 and June 30, 1995, the Hospital wrote off \$4,200 and \$7,171, respectively, as charity expense, which is netted against its revenue.

NOTE L

PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized below:

	June 30,	
	1996	1995
Building	\$ 9,171,331	\$ 9,048,811
Equipment	7,041,508	6,737,892
Vehicles	72,130	34,352
	16,284,969	15,821,055
Less: Accumulated Depreciation	10,141,858	9,229,865
Total Buildings and Equipment	6,143,111	6,591,190
Land	375,342	375,342
Total Property and Equipment, net of Depreciation	\$ 6,518,453	\$ 6,966,532

Depreciation expense for the years ended June 30, 1996 and June 30, 1995 totaled \$914,773 and \$904,646, respectively.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE M

LOSS ON TERM OF SERVICE

During the year ended June 30, 1995, the Hospital closed its Grand Isle Medical Clinic. Certain leasehold improvements had been made to the Clinic building prior to its closure. Because the Clinic was closed, the remaining book value of the leasehold improvements was written off. The remaining book value of these leasehold improvements at the time the Clinic was closed amounted to \$46,029. This loss is reflected as a non-operating loss on the statement of revenues and expenses.

NOTE N

SUBSEQUENT EVENTS

Subsequent to June 30, 1996, the Hospital signed contracts with three physicians. One physician is under contract for three years, with minimum compensation established for the first year at \$180,000.

Another physician is under contract for one year with annual renewal available, and minimum compensation set at \$180,000.

The third physician is under contract for one year with minimum compensation set at \$115,000.



To the Board of Commissioners
Lafourche Parish Hospital Service District No. 1
d/b/a Lady of The Sea General Hospital
Galliano, Louisiana

Independent Auditor's Report
on Supplementary Information

Our report on our audit of the component unit financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** for the years ended June 30, 1996 and 1995, appears on page 1. That audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplementary information that follows on pages 20-25 is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehr, Romig & Hand
A Professional Accounting Corporation

August 30, 1996

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY (Continued)

2. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity's financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the police jury appoints all of the members of the Hospital's governing board and has the ability to impose its will on the Hospital, the Hospital was determined to be a component unit of the Lafourche Parish Police Jury. The accompanying financial statements present information only on the funds maintained by the Hospital and do not present information on the police jury, the general government services provided by that government unit, or the other governmental units that comprise the financial reporting entity.

PROPRIETARY FUND ACCOUNTING

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of six months or less, excluding amounts whose use is limited by board designation, other arrangements under trust agreements or with third-party payors.

NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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**LAFOURCHE PARISH HOSPITAL SERVICE
DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL**

**AUDIT OBSERVATIONS AND
RECOMMENDATIONS
YEAR ENDED JUNE 30, 1996**

PURCHASING (Continued)

Improving Controls through Purchase Requisitions (Continued)

The accounts payable clerk should maintain a file of outstanding approved purchase requisitions. Once the merchandise has been received, the shipping document and the receiving report should be compared to purchase requisition. These documents should then be compared to the vendor invoice. Unexplained differences between the purchase requisition and the other documents should be reported to the CFO.

PAYROLL

Limit Access to Payroll Information

Duties of the payroll department include establishing new employee files, updating wage rates and processing the biweekly payroll. These duties are predominantly handled by one employee, thus the potential exists that an unauthorized employee and/or an unauthorized wage increase could be input to the payroll system and not be detected.

The payroll department's access to the computer program for payroll should be limited only to the generation of the biweekly payroll. The payroll department should not have access to those programs in which new employees are established or in which employee pay rates are changed. By segregating these duties from the payroll department, administration reduces the risk that a payroll check could be prepared for an unauthorized employee or pay rate.

Since the Human Resources Department handles the hiring of new employees, those computer programs in which new employees are established should be limited to the Human Resources Department. In addition, changes in pay rates should be input into the computer system by Human Resources.

CLINICS

LOS Medical Clinic and Total Care Clinic

The business office of the LOS Medical Clinic (the Clinic) and Total Care Clinic utilize prenumbered patient charge sheets (a.k.a. encounter sheets and super bills, respectively). These sheets document the services patients receive at the clinics. These sheets are maintained at the business offices of the clinics and are filed in numerical order. However, no procedures are performed to verify that the numerical sequencing of these sheets is complete and no sheets are missing.

Because of this, the risk is high that cash from patients might not be included in the clinics' bank deposits, the revenues are not recorded in the computer systems of the clinics, and patient bills are not filed with the insurance company.

CLINICS (Continued)

LOS Medical Clinic and Total Care Clinic (Continued)

In order to reduce this risk, management should perform the following procedures:

1. The Hospital's accounting department should compare the amount of revenue reported by the clinics' business offices to the amount reported on the clinics' monthly revenue (combination) reports. This would verify that the amount of revenue reported to the accounting department agrees to the amount of revenue recognized by the business office.
2. The Hospital's accounting staff, under the direction of the CFO, should randomly select dates whereby patient charge sheets are checked for completeness in regards to numerical sequencing. Any missing patient charge sheets should be noted and investigated.

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

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, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, and others within the organization.

We appreciate the confidence you have placed in us by allowing us to serve **LAFORCIE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**. If we can assist you in any way with the above, please do not hesitate to contact us.

Very truly yours,

LaPORTE, SEHRT, ROMIG & HAND



Gregory P. Romig
Certified Public Accountant





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

To the Board of Commissioners
Lafourche Parish Hospital Service District No. 1
d/b/a **Lady of The Sea General Hospital**
Galliano, Louisiana

We have audited the general purpose financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**, for the year ended June 30, 1996, and have issued our report thereon dated August 30, 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 general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** is the responsibility of the Hospital's management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the Hospital'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.

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

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

LaPorte, Sehart, Romig & Hand

A Professional Accounting Corporation

August 30, 1996

A Professional Accounting Corporation
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International Affiliation with Accounting Firms Associated, Inc.

CLINICS

LOS Medical Clinic and Total Care Clinic

The business office of the LOS Medical Clinic (the Clinic) and Total Care Clinic utilize prenumbered patient charge sheets (a.k.a. encounter sheets and super bills, respectively). These sheets document the services patients receive at the clinics. These sheets are maintained at the business offices of the clinics and are filed in numerical order. However, no procedures are performed to verify that the numerical sequencing of these sheets is complete and no sheets are missing.

Because of this, the risk is high that cash from patients might not be included in the clinics' bank deposits, the revenues are not recorded in the computer systems of the clinics, and patient bills are not filed with the insurance company.

In order to reduce this risk, management should perform the following procedures:

1. The Hospital's accounting department should compare the amount of revenue reported by the clinics' business offices to the amount reported on the clinics' monthly revenue (combination) reports. This would verify that the amount of revenue reported to the accounting department agrees to the amount of revenue recognized by the business office.
2. The Hospital's accounting staff, under the direction of the CFO, should randomly select dates whereby patient charge sheets are checked for completeness in regards to numerical sequencing. Any missing patient charge sheets should be noted and investigated.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the **LAFORCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**, in a separate letter dated August 30, 1996.

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

La Porte, Leblond, Roney & Hurd

A Professional Accounting Corporation

August 30, 1996

In planning and performing our audit of the general purpose financial statements of **LAFOURCHÉ PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** for the year ended June 30, 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 the 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.

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 reportable conditions noted are as follows:

PURCHASING

Observation

During our tests of controls over the purchasing function, it was noted that approved purchase requisitions are not forwarded to the accounts payable clerk to match with invoices prior to payment.

Recommendation

A copy of the approved purchase requisition should be submitted to the accounts payable clerk by the personnel approving the purchase requisition. This will give an employee independence of the purchasing function, the opportunity to verify that the items ordered according to the approved requisition agree in description and quantity to the items which were billed to the Hospital.

PAYROLL

Observation

During our review of the payroll cycle, it came to our attention that one employee is responsible for establishing new employee files, updating wage rates and processing the biweekly payroll.

Recommendation

The payroll department's access to the computer program should be limited to entering the biweekly payroll. The department should not have access to those programs which involve establishing new employees on the system or changes pay rates. The latter two responsibilities should rest with the human resource function.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE GENERAL PURPOSE
FINANCIAL STATEMENTS IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Lafourche Parish Hospital Service District No. 1,
d/b/a Lady of the Sea General Hospital
Galliano, Louisiana

We have audited the general purpose financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** for the year ended June 30, 1996, and have issued our report thereon dated August 30, 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 general purpose financial statements are free of material misstatement.

The management of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** 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.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A
LADY OF THE SEA GENERAL HOSPITAL
UNAUDITED CONDENSED SCHEDULE OF INSURANCE (Continued)
For The Year Ended June 30, 1996

<u>COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRES</u>
<u>PROFESSIONAL LIABILITY</u>		
Coverage per Claim	100,000	11/1/96
<u>GENERAL LIABILITY</u>		
Coverage per Occurrence	5,000,000	11/1/96
<u>PATIENT COMPENSATION</u>		
Coverage per Claim	100,000	11/1/96
<u>BUSINESS TRAVEL</u>		
Accidental Death	225,000	6/13/97
Aggregate	675,000	6/13/97

See independent auditor's report on supplementary information.



August 30, 1996

Board of Directors
Lafourche Parish Hospital Service District No. 1
d/b/a Lady of the Sea General Hospital

In planning and performing our audit of the financial statements of **LAFOURCHIE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** for the year ended June 30, 1996, we considered its internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, as we noted in the prior year, there were 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 Organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

PURCHASING

Improving Controls through Purchase Requisitions

Purchase requisitions, once approved by the department head, are not forwarded to the accounts payable clerk. With the purchasing department controlling the placement of purchase orders and the receipt of merchandise, the potential exists for an employee in the purchasing department to alter an approved purchase requisition without the knowledge of management or the requesting department.

A copy of the approved purchase requisition should be submitted to the accounts payable clerk by the personnel approving the purchase requisition. By providing the accounts payable clerk with a copy of the approved purchase requisition, an employee, independent of the purchasing function is able to verify that descriptions and quantities of items ordered agree to the descriptions and quantities of items received and billed to the Hospital.