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HOSPITAL SERVICE DISTRICT NO. 3
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 1997 and 1996

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

Release Date 4-15-98

T A B L E O F C O N T E N T S

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
COMPONENT UNIT FINANCIAL STATEMENTS	
Comparative Balance Sheet - Proprietary Fund Type	3-4
Comparative Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Fund Type	5
Comparative Statement of Cash Flows - Proprietary Fund Type	6-7
Notes to Financial Statements	8-15
SUPPLEMENTAL INFORMATION	
Schedule of Insurance in Force	16
Schedule of Compensation Paid to Board Members	17
INTERNAL CONTROL AND COMPLIANCE	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	18-20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	21-22

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SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hospital Service District No. 3
of the Parish of St. Mary
State of Louisiana
1101 Southeast Blvd.
Morgan City, LA 70380

We have audited the accompanying component unit financial statements of the Hospital Service District No. 3 of the St. Mary Parish Council, State of Louisiana, as of and for the years ended September 30, 1997 and 1996 as listed in the table of contents. These component unit financial statements are the responsibility of the District'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 3 as of September 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information as listed in the table of contents, while not considered necessary for a fair presentation of the financial statements, is presented as supplementary analytical data. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to

auditing procedures applied in the audit of the financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated January 12, 1998 on our consideration of Hospital Service District No. 3's internal control over financial reporting and a report dated January 12, 1998 on its compliance with certain provisions of laws, regulations and contracts.

Adams & Johnson

ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
January 12, 1998

COMPONENT UNIT FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

COMPARATIVE BALANCE SHEET - PROPRIETARY FUND TYPE
September 30, 1997 and 1996

	<u>9-30-97</u>	<u>9-30-96</u>
ASSETS		
Current assets:		
Cash	\$ 50,173	\$ 141,422
Accounts receivable	---	3,165
Assets limited as to use required for Construction Contract	---	200,000
Prepaid expenses	<u>2,917</u>	<u>1,430</u>
Total current assets	\$ 53,090	\$ 346,017
Assets limited as to use <net of current portion>	360,128	311,019
Property, plant and equipment <net of accumulated depreciation>	<u>1,364,954</u>	<u>1,185,350</u>
Total assets	\$1,778,172 =====	\$1,842,386 =====

	<u>9-30-97</u>	<u>9-30-96</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Current liabilities		
Accounts payable	\$ 4,459	\$ 114,363
Deferred rent income	<u>---</u>	<u>4,573</u>
Total current liabilities	\$ 4,459	\$ 118,936
Fund equity:		
Retained Earnings:		
Reserved	\$ 360,128	\$ 511,019
Unreserved	<u>1,413,585</u>	<u>1,212,431</u>
Total fund equity	<u>1,773,713</u>	<u>1,723,450</u>
Total liabilities and fund equity	\$1,778,172 =====	\$1,842,386 =====

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

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND EQUITY - PROPRIETARY FUND TYPE
Years Ended September 30, 1997 and 1996

	<u>9-30-97</u>	<u>9-30-96</u>
Operating revenues:		
Building & property rental	\$ 125,456	\$ 97,357
Total operating revenues	\$ 125,456	\$ 97,357
Operating expenses:		
Advertising	\$ 251	\$ 510
Bad Debt	3,165	---
Board members compensation	2,000	2,400
Depreciation	63,792	49,035
Office supplies	40	58
Insurance	16,353	15,994
Repairs and maintenance	972	9,222
Secretary/bookkeeping fees	4,300	4,300
Audit fees	<u>2,495</u>	<u>1,995</u>
Total operating expenses	<u>93,368</u>	<u>83,514</u>
Operating Income <Loss>	\$ 32,088	\$ 13,843
Nonoperating revenues <expenses>:		
Ad valorem taxes	\$ ---	\$ 57
Interest income	<u>18,175</u>	<u>39,386</u>
Total excess nonoperating revenues over <expenses>	<u>18,175</u>	<u>39,443</u>
Net income	\$ 50,263	\$ 53,286
Retained earnings, beginning	<u>1,723,450</u>	<u>1,670,164</u>
Retained earnings, ending	\$1,773,713 =====	\$1,723,450 =====

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

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

COMPARATIVE STATEMENT OF CASH FLOWS-
PROPRIETARY FUND TYPE
Years Ended September 30, 1997 and 1996

	<u>9-30-97</u>	<u>9-30-96</u>
Cash flows from operating activities:		
Operating income	\$ 32,088	\$ 13,843
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	\$ 63,792	\$ 49,035
Bad Debt	3,165	---
Changes in current assets & liabilities:		
<Increase> decrease in prepaid expenses	< 1,487>	< 321>
Increase <decrease> in accounts payable	< 109,904>	114,300
Increase <decrease> in deferred rent	< 4,573>	---
Total adjustments	<u>< 49,007></u>	<u>163,014</u>
Net cash provided <used> by operating activities	\$< 16,919>	\$ 176,857
Cash flows from noncapital financing activities:		
Ad valorem taxes	---	57
Cash flows used by capital and related financing activities		
Improvements to capital assets	< 243,396>	< 346,677>

	<u>9-30-97</u>	<u>9-30-96</u>
Cash flows from investing activities:		
Proceeds <purchase> of certificate of deposit	\$ ---	\$ 51,482
Proceeds <purchase> proceeds of limited use assets	150,891	196,731
Interest earned	<u>18,175</u>	<u>39,386</u>
Net cash <used> provided by investing activities	<u>169,066</u>	<u>287,599</u>
Net increase <decrease> in cash and cash equivalents	\$< 91,249>	\$ 117,836
Cash and cash equivalents, beginning of year	<u>141,422</u>	<u>23,586</u>
Cash and cash equivalents, end of year	\$ 50,173 =====	\$ 141,422 =====

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

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements
September 30, 1997 and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hospital Service District No. 3 of the Parish of St. Mary, State of Louisiana (Fairview Hospital) was created by Ordinance No. 726 of the St. Mary Parish Police Jury, on August 14, 1968. The District encompasses all of the territory situated in Wards 5 and 8 of St. Mary Parish.

The District is a component unit and an integral part of St. Mary Parish Council, the reporting entity which exercises oversight and control over the District. The District operates under a Board of Commissioners. These financial statements include all funds of the District.

The accounting and reporting policies of the Hospital Service District No. 3 of the Parish of St. Mary, State of Louisiana conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:513 and to the guides set forth in the Louisiana Governmental Audit Guide and to the industry audit guide, Audits of State and Local Governmental Units.

The following is a summary of certain significant accounting policies:

A) Fund Accounting:

The accounting system is organized and operated on a fund basis (proprietary fund) whereby a separate self-balancing set of accounts comprised of assets, liabilities, revenues and expenses is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Proprietary Fund:

Enterprise Fund - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C) Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District's accounting system is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D) Fixed Assets and Long-Term Liabilities:

The accounting and reporting treatment applied to fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activities are included in the balance sheet. All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. As of September 30, 1997 and September 30, 1996, all assets on the balance sheet are valued at historical cost.

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported in Note 5. Depreciation has been provided over estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	10-40 years
Equipment	5-10 years

- E) **Statement of Cash Flows:**
For the purpose of the statement of cash flows, the District considers all highly liquid asset investments with a maturity of three months or less when purchased to be cash equivalents.
- F) **Accumulated Vacation, Compensatory Time and Sick Leave:**
Accumulated vacation, compensatory time and sick leave are recorded as an expenditure of the period in which incurred. For the years ended September 30, 1997 & 1996, the District did not have any employees, therefore the District did not have a provision for this potential liability.
- G) **Investments:**
Investments, consisting of U.S. Treasury Notes and Certificates of Deposit, are stated at cost, which approximates market. Investment income is reported as nonoperating revenue.
- H) **Reporting Entity:**
GASB Statement No. 14, Governmental Reporting Entity, established criteria for determining which organizations should be included in a governmental financial reporting entity. The focal point for defining the financial reporting entity is the primary government. Hospital Service District No. 3 is a component unit of the St. Mary Parish Council (primary government) and, as such, these financial reports may be included in the CAFR of the Council for the year ended December 31, 1997. Hospital Service District No. 3 has followed GASB-14 guidance to determine that there are no financial statements

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of other organizations that should be combined with their statements to form a financial reporting entity.

NOTE 2 - AD VALOREM TAXES

The District did not assess property taxes for the years ended September 30, 1997 and September 30, 1996. The property tax assessment expired on September 30, 1993 and has not been renewed. The board must receive voter approval before renewal and, at this time, the board has elected not to seek renewal. Although the District's property tax assessment expired, it did receive back taxes of \$57 for the year ended September 30, 1996.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Policies & Procedures

Cash includes amounts in demand deposits, interest-bearing deposits, and money market accounts. The District considers cash equivalents amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

Statutes also authorize the district to invest in certificates of deposit, repurchase agreements, passbooks, bankers acceptances, and other available bank investments provided that the approved securities are pledged to secure those funds on deposit, as required. These deposits must be secured by federal deposit insurance or the pledge of securities owned by the bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the bank.

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following is a summary of the cash, cash equivalents and investments and the related federal deposit insurance and the related pledge securities as of September 30, 1997 and 1996:

	<u>9-30-97</u>	<u>9-30-96</u>
Cash	\$ 50,173	\$ 141,422
Investments		
Certificates of deposits	---	---
Assets whose use is limited		
Certificate of deposit	<u>350,000</u>	<u>500,000</u>
Total	400,173	641,422
Pledged Securities	50,173	141,422
Portion insured by federal deposit insurance	<u>350,000</u>	<u>500,000</u>
Portion not insured or collateralized	\$ --- =====	\$ --- =====

NOTE 4 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include cash, cash equivalents and accrued interest earned on cash accounts held for future capital improvements. 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 at September 30, 1997 and 1996 is set forth below.

	<u>9-30-97</u>	<u>9-30-96</u>
Certificates of Deposit	\$ 350,000	\$ 500,000
Accrued Interest Receivable	<u>10,128</u>	<u>11,019</u>
Total	\$ 360,128 =====	\$ 511,019 =====

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 4 - ASSETS WHOSE USE IS LIMITED (Continued)

September 30, 1997:

These amounts are classified on the balance sheet as long-term in the amount of \$360,128 for future capital improvements, and repairs and maintenance.

September 30, 1996:

These amounts are classified on the balance sheet as current portion of \$200,000, to be used to construct a new building, and of the long-term portion of \$311,019, the entire \$311,019 is for future capital improvements, repairs and maintenance.

NOTE 5 - CHANGES IN FIXED ASSETS

The following is a summary of changes in the fixed assets for the fiscal year:

	<u>Balance</u> 9-30-96	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 9-30-97
Land	\$ 48,998	---	---	\$ 48,998
Building				
Claire House	346,677	243,395	---	590,072
Building	1,520,288	---	---	1,520,288
Improvements	144,303	---	---	144,303
Equipment	<u>459,889</u>	<u>---</u>	<u>35,494</u>	<u>424,395</u>
	2,520,155	243,395	35,494	2,728,056
Less:				
Accumulated				
Depreciation	<u><1,334,805></u>	63,792	35,495	<u><1,363,102></u>
Net Property, Plant & Equip.	\$1,185,350			\$1,364,954
	=====			=====

Depreciation expense for the years ended September 30, 1997 and 1996 was \$63,792 and \$49,035.

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 6 - RETIREMENT

The district did not have any employees for the years ended September 30, 1997 and 1996, therefore no contributions were made during these years into the Social Security System or any other retirement system.

NOTE 7 - RESERVED FUND BALANCE

The District has reserved certain resources for future capital improvements, repairs and maintenance of the Hospital as follows:

	<u>9-30-97</u>	<u>9-30-96</u>
Capital improvements, repairs and maintenance	\$ 360,128	\$ 311,019
New Building	<u>---</u>	<u>200,000</u>
Total reserved	\$ 360,128 =====	\$ 511,019 =====

NOTE 8 - CLOSURE OF HOSPITAL

On January 31, 1988, the Board decided to cease operations as an acute care facility. The District's current function is to maintain the physical hospital facility. In an effort to maintain the building without taxing the property owners of the District, the buildings are currently being rented by the Fairview Treatment Center and the Claire House, component units of the Parish Council.

NOTE 9 - ECONOMIC DEPENDENCE

Currently two entities account for 100% of the District's rental income, Fairview Treatment Center and the Claire House. Fairview Treatment Center accounts for 56% and the Claire House for Women and Children 44% of the total rental income.

HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)
September 30, 1997 and 1996

NOTE 9 - RELATED-PARTY LEASE

Hospital Service District No. 3 currently leases to Recreation District No. 3, also a component unit of the St. Mary Parish Council, 4.98 acres of land, which is adjacent to the hospital. The Recreation District No. 3 utilizes this land for a ball park. This lease is cancellable by agreement between the participants or until such time that it is determined that this property is needed by Hospital Service District No. 3 for a good and valid purpose, at which time Hospital Service District No. 3 shall give written notice to Recreation District No. 3 to vacate the property within six months and remove its facilities.

Hospital Service District No. 3 also currently leases space in its original physical facility to Fairview Treatment Center and the newly constructed facility to the Claire House, also component units of the St. Mary Council. These leases are on a year-to-year basis.

The Hospital Service District No. 3 is currently in the process of negotiating a lease agreement with the St. Mary Parish Library to lease a small section of the District's property. This property will be utilized to construct a library.

NOTE 11- CONSTRUCTION IN PROGRESS

During the year ended September 30, 1996, Hospital Service District No. 3 began construction of a new building for the purpose of renting to the St. Mary Parish Council to provide a facility for the Claire House. The Claire House a component unit of the Parish, is a long-term residential treatment facility for chemically addicted women and their children. The facility was completed during the year ended September 30, 1997 and the St. Mary Parish Council began lease payments on November 1, 1996 when the Claire House began occupancy.

SUPPLEMENTAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 3

SCHEDULE OF INSURANCE IN FORCE
For the Years Ended September 30, 1997 and 1997
(Unaudited)

September 30, 1997

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Amt. of Coverage</u>	<u>Exp. Date</u>
Hartford	Commercial General Liability		11-1-97
	Bodily Injury:		
	Each Occurance	\$1,000,000	
	Aggregate	\$2,000,000	
	Fire Damage:		
	Any One Fire	\$ 300,000	
	Medical Expense	\$ 10,000	
Hartford	Property		11-1-97
	Building	\$2,739,000	
	Contents	\$ 23,900	
	Building Claire House	\$ 500,000	
Bankers	Flood - Building	\$ 121,000	12-31-99

September 30, 1996

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Amt. of Coverage</u>	<u>Exp. Date</u>
Hartford	General Liability		11-1-96
	Bodily Injury:		
	Each Occurence	\$1,000,000	
	Aggregate	\$2,000,000	
	Medical:	10,000	
	Fire Damage:		
	Any One Fire	\$ 300,000	
Hartford	Property		11-1-96
	Building	\$2,739,000	
	Contents	\$ 22,500	
	Fire	\$ 300,000	

HOSPITAL SERVICE DISTRICT NO. 3

SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
September 30, 1997 and 1996

September 30, 1997

	Per Diem	Meetings Attended
Stan Beauboeuf	\$ 500	10
Dudley Landry	350	7
Jules Thomas	50	1
Jerry Adams	450	9
Carey Staples	500	10
Sonny Legendre	<u>150</u>	3
	\$ 2,000	
	=====	

September 30, 1996

	Per Diem	Meetings Attended
Stan Beauboeuf	\$ 600	12
Dudley Landry	600	12
Jules Thomas	150	3
Jerry Adams	500	10
Carey Staples	<u>550</u>	11
	\$ 2,400	
	=====	

INTERNAL CONTROL AND COMPLINANCE

HOSPITAL SERVICE DISTRICT NO. 3
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL
STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS ISSUED BY THE GAO

YEARS ENDED SEPTEMBER 30, 1997 & 1996

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS ISSUED BY THE GAO

To the Board of Commissioners
Hospital Service District No. 3
of the Parish of St. Mary
1101 Southeast Blvd.
Morgan City, LA 70380

We have audited the basic financial statements of the Hospital Service District No. 3 a component unit of the St. Mary Parish Council, State of Louisiana for the years ended September 30, 1997 & 1996, and have issued our report thereon dated January 12, 1998.

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 from material misstatement.

In planning and performing our audit of the financial statements of Hospital Service District No. 3, for the years ended September 30, 1997 & 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.

The management of the Hospital Service District No. 3 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 transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

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 or the design and operation of policies and procedures may deteriorate.

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 financial statements.

Finding:

Our examination disclosed that there are no segregation of duties within the District's accounting function, (especially in the areas of cash receipts, bank reconciliations, cash disbursements, general ledger and journal entries.) This weakness is due to the fact that the District sub-contracts out this bookkeeping function to an accountant. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, since the Hospital doesn't have any employees, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also the cost of hiring employees might exceed any benefits gained. The management of the District is well aware of the loss of internal control that results with their subcontracting of the accounting functions and are constantly on watch for any problems that could occur.

Recommendation:

Based upon the cost-benefit of hiring personnel, it may not be feasible to achieve complete segregation of duties. We recommend management continue to closely monitor all records and transactions.

Response:

No response is considered necessary.

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 function.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the use of Hospital Service District No. 3 and the Louisiana Legislative Auditor, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Hospital Service District No. 3 is a matter of public record.

Adams & Johnson

ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
January 12, 1998

HOSPITAL SERVICE DISTRICT NO. 3
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

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

YEARS ENDED SEPTEMBER 30, 1997 & 1996

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CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners
Hospital Service District No. 3
of the Parish of St. Mary
State of Louisiana
1101 Southeast Blvd
Morgan City, LA 70380

We have audited the basic financial statements of the Hospital Service District No. 3 a component unit of the St. Mary Parish Council, State of Louisiana as of and for the years ended September 30, 1997 and 1996, and have issued our report thereon dated January 12, 1998.

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 as to whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Hospital Service District No. 3 is the responsibility of Hospital Service District No. 3's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Hospital Service District No. 3'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 an opinion.

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

This report is intended solely for the use of Hospital Service District No. 3, the St. Mary Parish Council and the Louisiana Legislative Auditor and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Hospital Service District No. 3 is a matter of public record.

Adams & Johnson

ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
January 12, 1998