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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, 1998 and 1997 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, 1998 and 1997, 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 7, 1999 on our consideration of Hospital Service District No. 3's compliance and internal control over financial reporting based on an audit of the financial statements.

Adams + Johnson

ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
January 7, 1999

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, 1998 and 1997

	<u>9-30-98</u>	<u>9-30-97</u>
ASSETS		
Current assets:		
Cash	\$ 92,483	\$ 50,173
Prepaid expenses	<u>3,169</u>	<u>2,917</u>
Total current assets	\$ 95,652	\$ 53,090
Assets limited as to use	356,630	360,128
Property, plant and equipment <net of accumulated depreciation>	<u>1,359,786</u>	<u>1,364,954</u>
Total assets	<u>\$1,812,068</u> =====	<u>\$1,778,172</u> =====

	<u>9-30-98</u>	<u>9-30-97</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Current liabilities		
Accounts payable	\$ <u>1,873</u>	\$ <u>4,459</u>
Total current liabilities	\$ 1,873	\$ 4,459
Fund equity:		
Retained Earnings:		
Reserved	\$ 356,630	\$ 360,128
Unreserved	<u>1,453,565</u>	<u>1,413,585</u>
Total fund equity	<u>1,810,195</u>	<u>1,773,713</u>
Total liabilities and fund equity	\$1,812,068 =====	\$1,778,172 =====

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, 1998 and 1997

	<u>9-30-98</u>	<u>9-30-97</u>
Operating revenues:		
Building & property rental	\$ 111,623	\$ 125,456
Total operating revenues	\$ 111,623	\$ 125,456
Operating expenses:		
Advertising	\$ 233	\$ 251
Bad Debt	---	3,165
Board members compensation	2,200	2,000
Depreciation	65,909	63,792
Office supplies	---	40
Insurance	16,196	16,353
Repairs and maintenance	---	972
Secretary/bookkeeping fees	4,300	4,300
Audit fees	<u>1,895</u>	<u>2,495</u>
Total operating expenses	<u>90,733</u>	<u>93,368</u>
Operating Income	\$ 20,890	\$ 32,088
Nonoperating revenues:		
Interest income	<u>15,592</u>	<u>18,175</u>
Total excess nonoperating revenues over <expenses>	<u>15,592</u>	<u>18,175</u>
Net income	\$ 36,482	\$ 50,263
Retained earnings, beginning	<u>1,773,713</u>	<u>1,723,450</u>
Retained earnings, ending	\$1,810,195 =====	\$1,773,713 =====

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, 1998 and 1997

	<u>9-30-98</u>	<u>9-30-97</u>
Cash flows from operating activities:		
Operating income	\$ 20,890	\$ 32,088
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	\$ 65,909	\$ 63,792
Bad Debt	---	3,165
Changes in current assets & liabilities:		
<Increase> in prepaid expenses	< 252>	< 1,487>
<Decrease> in accounts payable	< 2,586>	< 109,904>
<Decrease> in deferred rent	<u>---</u>	<u>< 4,573></u>
Total adjustments	63,071	< 49,007>
Net cash provided <used> by operating activities	\$ 83,961	\$ < 16,919>
Cash flows used by capital and related financing activities		
Improvements to capital assets	< 60,741>	< 243,396>
Cash flows from investing activities:		
Proceeds of limited use assets	\$ 3,498	\$ 150,891
Interest earned	<u>15,592</u>	<u>18,175</u>
Net cash provided by investing activities	<u>19,090</u>	<u>169,066</u>
Net increase <decrease> in cash and cash equivalents	\$ 42,310	\$ < 91,249>
Cash and cash equivalents, beginning of year	<u>50,173</u>	<u>141,422</u>
Cash and cash equivalents, end of year	\$ 92,483 =====	\$ 50,173 =====

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, 1998 and 1997

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.

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, 1998 and September 30, 1997, all assets on the balance sheet are valued at historical cost.

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, 1998 & 1997, 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, 1998. Hospital Service District No. 3 has followed GASB-14 guidance to determine that there are no financial statements of other organizations that should be combined with their statements to form a financial reporting entity.

NOTE 2 - 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.

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, 1998 and 1997:

	<u>9-30-98</u>	<u>9-30-97</u>
Cash	\$ 92,483	\$ 50,173
Investments		
Certificates of deposits	---	---
Assets whose use is limited		
Certificate of deposit	<u>350,000</u>	<u>350,000</u>
Total	\$ 442,483	\$ 400,173
Pledged Securities	---	50,173
Portion insured by federal deposit insurance	<u>400,000</u>	<u>350,000</u>
Portion not insured or collateralized	\$ 42,483 =====	\$ --- =====

NOTE 3 - 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, 1998 and 1997 is set forth below.

	<u>9-30-98</u>	<u>9-30-97</u>
Certificates of Deposit	\$ 350,000	\$ 350,000
Accrued Interest Receivable	<u>6,630</u>	<u>10,128</u>
Total	\$ 356,630 =====	\$ 360,128 =====

September 30, 1998:

These amounts are classified on the balance sheet as long-term in the amount of \$356,630 for future capital improvements, and repairs and maintenance.

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.

NOTE 4 - CHANGES IN FIXED ASSETS

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

	<u>Balance 9-30-97</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9-30-98</u>
Land	\$ 48,998	\$ ---	\$ ---	\$ 48,998
Building				
Claire House	590,072	4,419	---	594,491
Building	1,520,288	---	---	1,520,288
Improvements	144,303	56,322	---	200,625
Equipment	<u>424,395</u>	<u>---</u>	<u>---</u>	<u>424,395</u>
	\$2,728,056	\$ 60,741	\$ ---	\$2,788,797
Less:				
Accumulated				
Depreciation	<u><1,363,102></u>	65,909	---	<u><1,429,011></u>
Net Property, Plant & Equip.	\$1,364,954 =====			\$1,359,786 =====

Depreciation expense for the years ended September 30, 1998 and 1997 was \$65,909 and \$63,792.

NOTE 5 - AD VALOREM TAXES

The District did not assess property taxes for the years ended September 30, 1998 and September 30, 1997. 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.

NOTE 6 - RETIREMENT

The district did not have any employees for the years ended September 30, 1998 and 1997, 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>9-30-98</u>	<u>9-30-97</u>
Capital improvements, repairs and maintenance	\$ <u>356,630</u>	\$ <u>360,128</u>
Total reserved	\$ 356,630 =====	\$ 360,128 =====

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.

NOTE 10 - RELATED-PARTIES

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 also currently leases a small section of land adjacent to the hospital. The St. Mary Parish Library System utilizes this land for a library. The St. Mary Parish Library System is also a component unit of the St. Mary Parish Council.

NOTE 11 - YEAR 2000 ISSUE

According to GASB Technical bulletin No. 98-1 "the year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely effect the government's operations as early as fiscal year 1999." Hospital Service District No. 3 has not yet inventoried their electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the District's operations. It is unknown as of September 30, 1998, what effects, if any, failing to remediate any such systems will have upon the District's operations.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of the remediation efforts will not be fully determinable until the year 2000 and thereafter. Therefore, management cannot assure that the District is or will be ready, that their remediation efforts will be successful in whole or in part, or that parties with whom they do business will be year 2000 ready.

SUPPLEMENTAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 3

SCHEDULE OF INSURANCE IN FORCE
For the Years Ended September 30, 1998 and 1997
(Unaudited)

September 30, 1998

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Amt. of Coverage</u>	<u>Exp. Date</u>
Hartford	General Liability		11-1-98
	Bodily Injury:		
	Each Occurance	\$1,000,000	
	Aggregate	\$2,000,000	
	Fire Damage:		
	Any One Fire	\$ 300,000	
	Medical Expense	\$ 10,000	
Hartford	Property		11-1-98
	Building	\$2,904,700	
	Contents	\$ 23,900	
	Building Claire House	\$ 525,000	
Bankers	Flood - Building	\$ 121,000	12-31-99

September 30, 1997

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

HOSPITAL SERVICE DISTRICT NO. 3

SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
September 30, 1998 and 1997

September 30, 1998

	Per Diem	Meetings Attended
Stan Beauboeuf	\$ 550	11
Jerry Adams	500	10
Carey Staples	550	11
Sonny Legendre	<u>600</u>	12
	\$ 2,200	
	=====	

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	
	=====	

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

YEARS ENDED SEPTEMBER 30, 1998 and 1997

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of the Hospital Service District No. 3 for the years ended September 30, 1998 and 1997, and have issued our report thereon dated January 7, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hospital Service District No 3's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which are described as follows.

Finding:

The Hospital Service District No. 3 is not monitoring all its bank account balances to assure that securities pledged to guarantee deposits equal 100 percent of the amount on deposit in excess of federal deposit insurance. Louisiana Revised Statute (LRS) 39:1225 provides that securities pledged to guarantee deposits of the Hospital Service District No. 3 in financial institutions shall at all times equal 100 percent of the amount on deposit in excess of federal deposit insurance. At September 30, 1998, deposits at one financial institution were undersecured by \$42,483. Failure to have adequate security for deposits places public funds at risk.

Recommendation:

The Hospital Service District No. 3 should insure that securities pledged by financial institutions are adequate at all times to guarantee the amount on deposit in excess of federal deposit insurance, as provided by LRS 39:1225.

Management Response:

The unsecured \$42,483 was a result of the bank failing to properly pledge securities to guarantee deposits. As of December 22, 1998 we have corrected this error and will require closer monitoring of our deposits in the future to assure this does not occur again.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hospital Service District No.3's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Hospital Service District No.3's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements.

Finding:

Our examination disclosed that there is not any segregation of duties within the District's accounting function, (especially in the areas of cash receipts, bank reconciliations, cash disbursements and general ledger). 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 District doesn't have any employees hired to handle the accounting function and they sub-contract this service out, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also the cost of hiring employees to handle the accounting function might exceed any benefits gained. The management of the District is well aware of the loss of internal control that results with their sub-contracting of the accounting functions and are constantly on watch for any problems that would occur.

Recommendation:

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

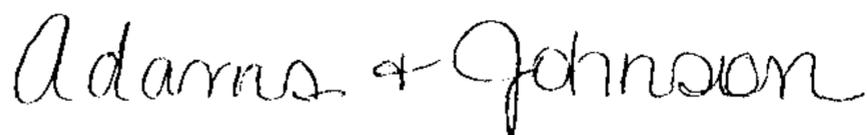
Management Response:

No response is considered necessary.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting 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 management, the participants, 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
Certified Public Accountants

Patterson, Louisiana
January 7, 1999