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HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 MAY 24 2000

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements

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KOLDER, CHAMPAGNE, SLAVEN & RAINEY, LLC

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have audited the accompanying general purpose financial statements of the Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of and for the year ended, September 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of September 30, 1999, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 1999, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The year 2000 supplemental information on page 19 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Hospital Service District No. 1 is or will become year 2000 compliant, that the Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will become year 2000 compliant.

Kolder, Champagne, Slaven & Rainey, LLC
Certified Public Accountants

Morgan City, Louisiana
November 17, 1999

GENERAL PURPOSE FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Balance Sheet
September 30, 1999

ASSETS

Current assets:	
Cash	\$ 110,361
Receivables:	
Patient (net of uncollectible provisions)	3,061,949
Agency (net of uncollectible provisions)	42,951
Inventory	447,287
Prepaid expenses	94,332
Total current assets	<u>3,756,880</u>
Restricted assets (restricted to capital improvements and debt retirement):	
Cash	1,177,142
Certificates of deposit	300,000
Total restricted assets	<u>1,477,142</u>
Property, plant and equipment, net	<u>4,375,866</u>
Other assets:	
Bond issue costs	<u>22,194</u>
Total assets	<u><u>\$ 9,632,082</u></u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Balance Sheet (Continued)
September 30, 1999

LIABILITIES AND RETAINED EARNINGS

Current liabilities:	
Short term certificates payable	\$ 551,000
Current maturities of debt	112,520
Accounts payable	1,100,162
Accrued wages and related withholdings	260,246
Other current liabilities	610,202
Payable from restricted assets:	
Current maturities of debt	320,000
Accrued expenses	14,022
Total current liabilities	<u>2,968,152</u>
Long term debt:	
Loans payable	307,572
Certificates of indebtedness payable	285,960
General obligation bonds payable	1,469,758
Total long term debt	<u>2,063,290</u>
Total liabilities	<u>5,031,442</u>
Retained earnings:	
Reserved for capital improvement and debt retirement	1,143,131
Unreserved and undesignated	3,457,509
Total retained earnings	<u>4,600,640</u>
Total liabilities and retained earnings	<u>\$ 9,632,082</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Statement of Revenues and Expenses
Year Ended September 30, 1999

Operating revenues:	
Inpatient revenue	\$ 8,633,919
Outpatient revenue	6,987,627
Emergency room revenue	2,771,656
Swing bed revenue	784,585
Rehabilitation revenue	1,879,926
Other revenue	989,379
	22,047,092
Contractual adjustments and discounts	(9,595,803)
Net operating revenues	12,451,289
Operating expenses:	
Bad debts	1,079,578
Depreciation expense	480,249
Dues and subscriptions	33,514
Insurance	274,120
Leases and rentals	42,430
Miscellaneous	9,357
Repairs and maintenance	318,105
Salaries and related benefits	6,868,847
Subcontract services	1,725,147
Supplies	1,561,686
Taxes, licenses and permits	17,773
Travel	35,623
Utilities	330,453
Total operating expenses	12,776,882
Income (loss) from operations	(325,593)
Nonoperating revenues (expenses):	
Interest expense	(97,919)
Tax revenue - restricted	293,727
Other	55,117
Total nonoperating revenues (expenses)	250,925
Net income (loss)	(74,668)
Retained earnings, beginning	4,675,308
Retained earnings, ending	\$ 4,600,640

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Statement of Cash Flows
Year Ended September 30, 1999

<i>Cash flows from operating activities:</i>	
Operating loss	<u>\$ (74,668)</u>
Adjustments to reconcile net operating income to net cash provided by operating activities -	
Depreciation	480,249
Changes in current assets and liabilities:	
(Increase) Decrease in accounts receivable	(980,753)
(Increase) Decrease in prepaid expenses	33,034
(Increase) Decrease in inventory	67,562
Increase (Decrease) in accounts payable	264,594
Increase (Decrease) in accrued wages and related withholdings	88,758
Increase (Decrease) to other current liabilities	(215,401)
Changes in other assets and liabilities:	
(Increase) Decrease in other assets	<u>243,729</u>
Total adjustments	<u>(18,228)</u>
Net cash used by operating activities	<u>(92,896)</u>
Cash flows from noncapital and financing activities	
Interest received	11,759
Ad valorem tax receipts	<u>293,727</u>
Net cash provided by noncapital and financing activities	<u>305,486</u>
Cash flows from capital and related financing activities	
Proceeds from debt	1,503,008
Principal repayment	(786,685)
Interest paid	<u>(97,919)</u>
Net cash provided by capital and related financing activities	<u>618,404</u>
Cash flows from investing activities:	
Purchases of property, plant and equipment	<u>(251,799)</u>
Net increase (decrease) in cash and cash equivalents	579,195
Cash, cash equivalents and restricted cash, beginning of period	<u>1,008,308</u>
Cash, cash equivalents and restricted cash, end of period	<u><u>\$ 1,587,503</u></u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies

Hospital Service District No. 1, Parish of St. Mary (hereafter "Hospital") was created by ordinance No. 559 of the Police Jury of St. Mary Parish (predecessor of the St. Mary Parish Government) on September 20, 1950, to operate, control, and manage matters concerning the health care of citizens west and northwest of the Wax Lake Outlet.

The District is governed by a board of seven commissioners appointed by the St. Mary Parish Council.

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

The more significant of the Hospital's accounting policies are described below.

A. Reporting Entity

As the governing authority of the parish, for reporting purposes, the St. Mary Parish Government is the financial reporting entity for St. Mary Parish. The financial reporting entity consists of (a) the primary government (parish council), (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.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the St. Mary Parish Government 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:

Appointing a voting majority of an organization's governing body, and

The ability of the parish council to impose its will on that organization and/or

The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the parish council.

Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Government.

Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

Because the parish council appoints the Hospital's governing body, Hospital Service District No. 1 was determined to be a component unit of the St. Mary Parish Government, the financial reporting entity. The accompanying component unit financial statements present information only on the funds maintained by the Hospital and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Fund Accounting

The Hospital is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where (a) the intent of the governing body is that the cost (expense, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided the 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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits and interest bearing demand deposits. Cash equivalents include amounts in time deposits having a maturity of three months or less when purchased.

E. Inventories

Inventories are stated at the lower of cost or market, with cost determined by the *first-in first-out, (FIFO) method*.

F. Prepaid Expenses

The Hospital records prepayments, such as insurance, as an asset on the balance sheet and systematically recognizes an expense ratably over the term of the prepayment.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Accounting Standards

Pursuant to Government 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, that do not conflict with or contradict GASB pronouncements.

N. Prior Year Reclassification

Certain previously reported amounts have been reclassified to enhance comparability with 1999 report classifications.

(2) Net Patient Service Revenue

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

A. 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 nonacute services, certain outpatient services, and defined capital and medical education 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 Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 1997. The Hospital's Medicare cost report for the year ended September 30, 1999 indicates a payable of \$338,913.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

B. Medicaid

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 September 30, 1997. The Hospital's Medicaid cost report for the year ended September 30, 1999 indicates a receivable of \$122,951.

(3) Cash and Certificates of Deposit

Under state law, the Hospital may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Hospital may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 1999, the Hospital had cash and interest-bearing deposits (book balances) totaling \$1,587,503.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The following is a summary of deposit balances (bank balances) at September 30, 1999, and the related federal insurance and pledged securities:

Bank balances	<u>\$1,904,726</u>
Federal deposit insurance	\$ 300,052
Pledged securities (Category 3)	<u>1,604,674</u>
Total federal insurance and pledged securities	<u>\$1,904,726</u>

Pledged securities in Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Hospital's name. Even though the pledged securities are considered uncollateralized (Category 3), Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within ten (10) days of being notified by the Hospital that the fiscal agent has failed to pay deposited funds upon demand.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

(4) Property and Equipment

A summary of property and equipment at September 30, 1999, follows:

Land	\$ 7,958
Land improvements	61,134
Buildings and improvements	6,303,362
Fixed equipment	898,154
Movable equipment	<u>5,102,693</u>
	12,373,301
Less accumulated depreciation	<u>(7,997,435)</u>
Property and equipment, net	<u>\$ 4,375,866</u>

Depreciation expense for the year ended September 30, 1999 was \$480,249.

(5) Bond Issue Costs

As described in Note 7, the Hospital issued general obligation refunding bonds, series 1991 and general obligation bonds, series 1999. Expenses, primarily legal fees, were incurred in connection with the issuance of the bonds. Accounting Principle Board Statement 21 requires such costs to be reported as deferred charges on the balance sheet and amortized from the date of sale until the maturity of the obligation.

At September 30, 1999, the Hospital has unamortized bond issue costs as follows:

Bond Issue Costs-	
General Obligation Refunding Bonds, Series 1997	\$19,468
General Obligation Bonds, Series 1999	<u>15,185</u>
	34,653
Amortization Recognized	<u>(12,459)</u>
	<u>\$22,194</u>

For the year ended September 30, 1999, amortization recognized totaled \$1,557.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

(6) Short term Certificates Payable

The Hospital obtained authorization from the State Bond Commission to issue short term certificates, not to exceed \$650,000. Such debt is incurred to pay operating expenses in anticipation of revenues for the current year. The certificates are due and payable on or before March 1, 2000 and bear interest at a rate not exceeding 6 percent per annum. At September 30, 1999, \$551,000 was due and payable on the certificates.

(7) Long-term Debt

The following is a summary of long-term debt transactions of the Hospital for the years ended September 30, 1999.

	9/30/98	Additions	Reductions	9/30/99
Loans payable	\$ 339,177	\$ -	\$ 31,605	\$ 307,572
Certificates of Indebtedness	504,923	-	106,443	398,480
General obligation bonds	1,070,000	900,000	180,242	1,789,758
Total general long-term debt	\$ 1,914,100	\$ 900,000	\$ 318,290	\$ 2,495,810

Current Maturities of long-term debt are as follows:

Certificates of Indebtedness	\$ 112,520
General obligation bonds	320,000
Total current maturities long-term debt	\$ 432,520

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

Long-term obligations (loans, certificates and bonds payable) are comprised of the following:

Loans Payable:

The Hospital has two outstanding obligations to the St. Mary Parish Council totaling \$43,572 and 264,000, respectively. The notes are unsecured and due and payable on demand. In lieu of payments on the notes, the Hospital has agreed to provide medical services to the parish prisoners and offset the cost of such services against the balance due.

Certificates of Indebtedness:

\$178,000 Certificates of Indebtedness, Series 1997, due in monthly installments of \$3,404 through July, 2002; interest payable at 5.55 percent per annum	\$ 104,338
\$400,000 Certificates of Indebtedness, Series 1998, due in monthly installments of \$7,596 through June, 2003; interest payable at 5.261 percent per annum	294,142
	\$ 398,480

General Obligation Bonds:

\$1,750,000 General Obligation Refunding Bonds, Series 1997, due in annual installments of \$35,000 - \$210,000 through March, 2004; interest ranging from 4.7 percent to 6.6 percent; payable from specific ad valorem tax levy	\$ 920,000
\$900,000 General Obligation Refunding Bonds, Series 1999, due in annual installments of \$160,000 - \$200,000 through March, 2004; interest ranging from 3.3 percent to 3.8 percent; payable from specific ad valorem tax levy	900,000
Less: Unamortized Discount	1,820,000 (30,242)
	\$ 1,789,758

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

The annual requirements to amortize all debt outstanding as of September 30, 1999, including interest payments of \$41,091 for the certificates of indebtedness and \$260,435 for the general obligation bonds, are as follows:

<u>Year Ending September 30</u>	<u>Certificates of Indebtedness</u>	<u>General Obligation Bonds</u>	<u>Total</u>
2000	\$ 132,006	\$ 419,920	\$ 551,926
2001	132,006	407,820	539,826
2002	119,785	410,490	530,275
2003	55,774	421,475	477,249
2004	-	420,730	420,730
	<u>\$ 439,571</u>	<u>\$2,080,435</u>	<u>\$ 2,520,006</u>

(8) Management Contract

In July of 1984, the Hospital entered into an agreement with Quorum Health Resources, LLC (formerly HCA Management Company, Inc.) to manage the day-to-day business affairs of the hospital. Quorum provides the hospital with the services of an administrator and a controller. Management fees are adjusted annually based on the Consumer Price Index. These fees are paid monthly in addition to a reimbursement for compensation and fringe benefits paid to the personnel furnished by Quorum to the hospital. For the year ended September 30, 1999, management fees and reimbursements for compensation and fringe benefits were \$232,279 and \$183,110 respectively.

(9) Contingent Liabilities

Compensated Absences. The Hospital is contingently liable for compensated absences. Compensated absences are nonvesting and are not paid in the event of termination of employment. Accrued compensated absences as of September 30, 1999 was \$158,045.

Hill-Burton Act. U.S. Department of Health and Human Resources has made inquiries into the hospital's compliance with the Hill-Burton Act. The hospital has received notification that it has met its obligations under the Hill-Burton program.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (Continued)

Litigation. At September 30, 1999, the Hospital was a defendant in various lawsuits. The Hospital's legal counsel has reviewed the claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Hospital and to arrive at an estimate, if any, of the amount or range of potential loss to the Hospital. As a result of the review, the various claims and lawsuits have been categorized into "probable", "reasonably possible", or "remote", as defined by the Governmental Accounting Standards Board. It is the opinion of the Hospital after conferring with legal counsel, that the liability, if any, which might arise from these lawsuits would not have a material adverse effect on the Hospital's financial position.

(10) Compensation of Board Members

Members of the Board of Commissioners of Hospital Service District No. 1 serve without compensation for their services. Board members are

Marshall Guidry
Ann Luke
Terry Martin
Roland Degeyter
Gregg Paul
Clegg Caffery, Jr.

SUPPLEMENTAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
State of Louisiana

Year 2000 Issue (Unaudited)
SEPTEMBER 30, 1999

Impact of Year 2000 on Computer Programs (Unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Hospital Service District No. 1's computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions or engage in similar normal business activities.

The Hospital Service District No. 1 has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting Hospital operations and have identified such systems as being financial reporting and payroll.

- Both applications have been assessed, remediated, tested, and validated.

Contracted amounts are not committed to this project as of September 30, 1999.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Hospital Service District No. 1 is or will be Year 2000 ready, that the Hospital Service District No.1's remediation efforts will be successful in whole or in part, or that parties with whom the Hospital Service District No. 1 does business will be Year 2000 ready. The Hospital Service District No. 1 is utilizing external resources to identify and test the systems for Year 2000 compliance.

INTERNAL CONTROL AND COMPLIANCE

KOLDER, CHAMPAGNE, SLAVEN & RAINEY, LLC
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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**

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have audited the general purpose financial statements of the Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, as of and for the year ended September 30, 1999, and have issued our report thereon dated November 17, 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 the Hospital Service District No. 1's general purpose 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 an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying corrective action plan for current year findings as Items 99-3 through 99-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital Service District No. 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 judgment, could adversely affect Hospital Service District No. 1's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying corrective action plan for current year findings as Items 99-1 through 99-2.

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 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable conditions referred to above are material weaknesses.

This report is intended solely for the information and use of management. However, this report is a matter of public record and its distribution is not limited.

Kolder, Champagne, Slaven & Rainey, LLC
Certified Public Accountants

Morgan City, Louisiana
November 17, 1999

HOSPITAL SERVICE DISTRICT NO. 1
 Parish of St. Mary

Schedule of Prior Audit Findings
 Year Ended September 30, 1999

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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There were no findings that are required to be reported.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Corrective Action Plan for Current Year Findings
Year Ended September 30, 1999

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)	Anticipated Completion Date
<u>Compliance</u>				
99-3	Purchases in excess of \$15,000 were not subjected to the requirements of the public bid law.	Management and staff have been informed of the need to adhere to the public bid laws when purchasing equipment for the hospital. Senior Management will monitor and ensure that this process is followed.	Jim Juno, Chief Financial Officer	Monitored on an on-going basis.
99-4	The audit of the financial statements was not completed within six months of the close of the fiscal year.	Senior Management of the hospital will ensure that the audit process is completed in accordance with the time frame required by the applicable revised statute. Due to the lack of a Chief Financial Officer during a significant part of the fiscal year preparation for the annual audit was not completed thereby causing a delay in the start of the year end audit by our external Certified Public Accountants.	Jim Juno, Chief Financial Officer	Monitored on an on-going basis.
<u>Internal Control</u>				
99-1	Subsidiary registers were not reconciled to the general ledger control accounts on a periodic basis.	Monthly reconciliations are now being performed to ensure that balances in the subsidiary ledger agree with the control account on the general ledger. Controls have been put in place to prevent entries directly to the general ledger control account that have not been processed through the subsidiary ledger.	Jim Juno, Chief Financial Officer	Monitored on an on-going basis.
99-2	Bank reconciliations were not prepared on a timely basis.	Bank reconciliations are now being performed monthly. The problem was caused by the absence of a full time Chief Financial Officer for a significant part of fiscal year 1999.	Jim Juno, Chief Financial Officer	Monitored on an on-going basis.

Management Letter Items

There are no items that are required to be reported.