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**HOOD MEMORIAL HOSPITAL**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

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.

**COMMISSIONERS**

W. D. Kent, D.V.M., Chairman  
Earle Cefalu, Jr.  
Larry Mobley  
C.G. Forrest, M.D.  
William K. Hood

Release Date APR 19 2000

**HOSPITAL ADMINISTRATOR**

A.D. Richardson

**ASSISTANT ADMINISTRATOR**

Claude Jones, Jr.

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**SEPTEMBER 30, 1999**

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## REPORT OF INDEPENDENT AUDITORS

Board of Commissioners  
Hood Memorial Hospital  
Hospital Service District No. 2 of  
Tangipahoa Parish, Louisiana

We have audited the accompanying balance sheets of Hood Memorial Hospital (the Hospital – Hospital Service District No. 2 of Tangipahoa Parish a component unit of Tangipahoa Parish, Louisiana) as of September 30, 1999 and 1998, and the related statements of revenue, expenses, and fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

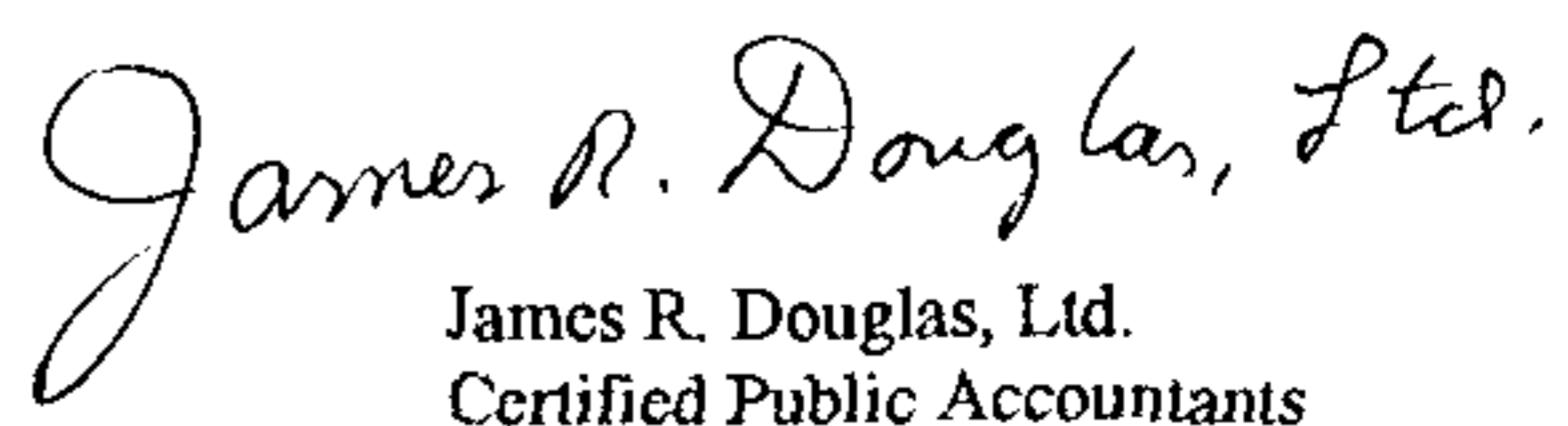
We conducted our audits in accordance with generally accepted auditing standards and in accordance with the standards for financial audits contained in *Government Auditing Standards* - (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hood Memorial Hospital as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2000, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 8, 2000

  
James R. Douglas, Ltd.  
Certified Public Accountants

## BALANCE SHEETS

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## HOOD MEMORIAL HOSPITAL

	SEPTEMBER 30	
	1999	1998
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,027,717	\$ 658,145
Patient accounts receivable, less allowances for uncollectible accounts (1999 and 1998 - \$230,000)	1,730,959	1,833,014
Amounts due from medicare and medicaid intermediaries	635,254	462,259
Inventories	160,923	147,534
Prepaid expenses and other debits	25,029	29,096
	<u>3,579,882</u>	<u>3,130,048</u>
	TOTAL CURRENT ASSETS	
ASSETS WHOSE USE IS LIMITED		
Board designated funds:		
Investments	1,954,495	1,954,495
Accrued interest receivable	6,115	5,878
	<u>1,960,610</u>	<u>1,960,373</u>
PROPERTY AND EQUIPMENT, net	<u>2,535,535</u>	<u>2,387,533</u>
OTHER ASSETS	<u>1,307</u>	<u>19,322</u>
	<u>8,077,334</u>	<u>7,497,276</u>
	TOTALS	
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Trade accounts payable	230,168	263,384
Employee compensation payable	64,449	58,023
Reserve for estimated claims	250,000	150,000
Amounts due to medicare and medicaid intermediaries	168,292	127,074
	<u>712,909</u>	<u>598,481</u>
	TOTAL CURRENT LIABILITIES	
FUND BALANCES	<u>7,364,425</u>	<u>6,898,795</u>
	<u>8,077,334</u>	<u>7,497,276</u>
	TOTALS	

See notes to financial statements

**STATEMENTS OF REVENUE, EXPENSES, AND FUND BALANCES**

**HOOD MEMORIAL HOSPITAL**

	YEAR ENDED SEPTEMBER 30	
	1999	1998
REVENUE		
Net patient service revenue	\$7,663,528	\$7,321,663
Other revenue	92,204	131,793
	7,755,732	7,453,456
	TOTAL REVENUE	
EXPENSES		
Nursing services	1,910,383	1,726,735
Other professional services	3,183,810	3,231,470
General services	503,544	522,407
Fiscal and administrative services	1,079,655	1,087,422
Bad debts	503,320	492,927
Depreciation and amortization	238,391	295,762
	7,419,103	7,356,723
	TOTAL EXPENSES	
	336,629	96,733
	INCOME FROM OPERATIONS	
NONOPERATING GAINS		
Interest earned	129,001	131,800
	465,630	228,533
	REVENUE AND GAINS IN EXCESS OF EXPENSES	
FUND BALANCE, Beginning of year	6,898,795	6,670,262
	7,364,425	6,898,795
	FUND BALANCE, End of year	

See notes to financial statements

**STATEMENTS OF CASH FLOWS**

**HOOD MEMORIAL HOSPITAL**

	YEAR ENDED SEPTEMBER 30	
	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income	\$ 336,629	\$ 96,733
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	238,391	295,762
Changes in -		
Accounts receivable	(29,722)	(140,067)
Other assets	(9,558)	(14,166)
Accounts payable	(33,216)	(194,177)
Reserves	100,000	100,000
Accrued expenses	6,426	7,900
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>608,950</u>	<u>151,985</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>		
Purchase of property and equipment	<u>(368,379)</u>	<u>(103,575)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	129,001	131,800
Matured certificates of deposits	400,000	208,458
Purchase of certificates of deposit	<u>(400,000)</u>	<u>(208,458)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>129,001</u>	<u>131,800</u>
	<b>NET INCREASE IN CASH</b>	<b>180,210</b>
Cash at beginning of year	<u>658,145</u>	<u>477,935</u>
	<b>CASH AT END OF YEAR</b>	<b>658,145</b>

See notes to financial statements



HOOD MEMORIAL HOSPITAL

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hood Memorial Hospital (the Hospital) is a nonprofit organization created by the Tangipahoa Parish Police Jury (as Hospital Service District No. 2 of Tangipahoa Parish, Louisiana), on November 17, 1964 (re-created on October 19, 1965) under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950 and is exempt from Federal and state income taxes. The governing authority of the District is the Tangipahoa Parish Police Jury and accordingly, appoints members to the Hospital Board. The Board exercises all administrative functions with respect to the operation and management of the Hospital. The Hospital reports in accordance with the American Institute of Certified Public Accountants' (AICPA) "Audits of Providers of Health Care Services" and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board. In preparing the financial statements, the Hospital is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant accounting policies used by the Hospital in preparing and presenting its financial statements are summarized below.

Inventory: Inventory is valued at the most recent invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

Assets whose use is limited: Assets whose use is limited include assets set aside by the Board of Commissioners for future capital improvements (over which the Board retains control and may at its discretion subsequently use for other purposes).

Investments: Investments (which consist of bank certificates of deposit with original maturities of more than three months when purchased) are stated at cost, plus accrued interest.

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

Buildings and land improvements	10-40 years
Fixed equipment	20 years
Major movable equipment	5-20 years

Net patient service revenues: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenues are reported at the estimated net amounts realizable from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Government health care program receivables include settlements for fiscal years subsequent to the fiscal year ended September 30, 1995 which are subject to audit and retroactive adjustment by the intermediary and the Department of Health and Human Services. Payment arrangements with major third-party payors are summarized below:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge which 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 costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is paid 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.

Medicaid - Reimbursement for inpatient services rendered to Medicaid program beneficiaries is based on a per diem methodology which is not subject to settlement. Reimbursement for outpatient services is based on actual cost or fee schedule rates, depending upon the types of services performed, with final settlement determined after submission of annual cost reports and audits by the Medicaid fiscal intermediary.

HOOD MEMORIAL HOSPITAL

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The Hospital derives a significant amount (approximately 66% for the year ended September 30, 1999 and 73% for the year ended September 30, 1998) of its net patient service revenues from patients covered by the Medicare and Medicaid programs.

Free care: The Hospital did not provide free care during the years ended September 30, 1999 and 1998.

Self-insured medical claims: The Hospital is self-insured for employee medical claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through a commercial insurance carrier. Management accrues its best estimate of probable claim amounts incurred but not reported based on its previous loss experience.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The nature of the Hospital's cash and short-term investments at September 30, 1999 and 1998 are:

	1999	1998
Cash	\$ 1,027,717	\$ 658,145
Certificates of deposit ( with maturities of more than three months when purchased)	1,954,495	1,954,495
Accrued interest receivable	6,115	5,878
	<u>2,988,327</u>	<u>2,618,518</u>

These balances are presented in the balance sheets and summarized below:

	1999	1998
Current assets:		
Cash	\$ 1,027,717	\$ 658,145
Assets whose use is limited:		
Investments	1,954,495	1,954,495
Accrued interest receivable	6,115	5,878
	<u>2,988,327</u>	<u>2,618,518</u>

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U. S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust funds registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). Statutes also require that all of the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal or exceed 100% of the deposits not covered by insurance. The bank balances of deposits at September 30, 1999 were not fully secured by the pledge of securities.



HOOD MEMORIAL HOSPITAL

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS -- CONTINUED

As of September 30, 1999, the balances reported by banks for cash and certificates of deposit totaled \$3,044,884. Of the \$3,044,884, \$300,000 was covered by federal depository insurance, \$2,293,151 was collateralized with securities held by the pledging bank in the Hospital's name (Category 3), and \$451,733 was not collateralized.

The Hospital's deposits are categorized to give an indication of the level of risk assumed by the Hospital. The categories are described as follows:

- Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3: Collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of Governmental Accounting Standards Board Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

3. GROUP ANNUITY CONTRACT

Under the terms of a group annuity contract entered into between American United Life Insurance Company and the Louisiana Hospital Association, eligible employees of the Hospital may enter into an agreement with the Company to contribute 3% of their gross salary to a group annuity contract. The Hospital is then obligated to contribute 5% to the contract, for a total of 8%. Once the contributions are made, the Hospital has no further liability.

4. PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 1999 and 1998, follows:

	1999	1998
Land	\$ 87,893	\$ 87,893
Land improvements -- hospital	117,473	117,473
Land improvements -- physicians building	22,643	22,643
Hospital building	2,541,382	2,541,382
Building improvements -- hospital	78,084	78,084
Physicians building	596,416	398,802
Fixed equipment -- hospital	172,896	172,896
Major movable equipment -- hospital	2,000,004	1,832,047
Physicians building -- major movable equipment	8,672	5,864
	<u>5,625,463</u>	<u>5,257,084</u>
Accumulated depreciation	3,089,928	2,869,551
	<u>2,535,535</u>	<u>2,387,533</u>

**HOOD MEMORIAL HOSPITAL**

**5. MALPRACTICE INSURANCE**

During 1976, the State of Louisiana enacted legislation that created a statutory limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers. The Hospital participates in the State Insurance Fund, which provides up to \$400,000 coverage for settlement amounts in excess of \$100,000 per claim. The Hospital is insured through the Louisiana Hospital Association Trust Fund with respect to the first \$100,000 of each claim.

**6. YEAR 2000 READINESS**

The Hospital is in the process of assessing its systems in anticipation of the year 2000 as it relates to its computer systems and other electronic equipment. The year 2000 issue refers to the fact that many computer programs use only the last two digits to refer to a year, therefore both 1900 and 2000 would be referred to as "00". Computer programs that have not been adjusted to recognize the difference between 1900 and 2000 will fail or create errors. The Hospital has identified its computer systems and other electronic equipment that need to be year 2000 compliant and in the process of addressing the problem.

**7. GOVERNMENTAL REGULATIONS**

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**PATIENT SERVICE REVENUES**

**HOOD MEMORIAL HOSPITAL**

YEAR ENDED SEPTEMBER 30, 1999

	<u>INPATIENT</u>	<u>OUTPATIENT</u>	<u>SKILLED NURSING FACILITY</u>	<u>BEHAVIORIAL HEALTH UNIT</u>	<u>TOTAL</u>
<b>ROUTINE SERVICES</b>					
Medical and surgical	\$ 709,630				\$ 709,630
Skilled nursing Facility			\$ 156,880		156,880
Behavioral health unit				\$ 1,365,700	1,365,700
	<u>709,630</u>		<u>156,880</u>	<u>1,365,700</u>	<u>2,232,210</u>
<b>ANCILLARY SERVICES</b>					
Blood bank	18,948	\$ 4,457	2,117		25,522
Behavioral health	1,744	4,804	362		6,910
CT scan	116,631	362,862	7,304	15,522	502,319
Central supply	384,224	166,190	55,915	33,605	639,934
Electrocardiology	152,270	88,075	3,075	5,320	248,740
Electroencepha- lography	1,750	3,500	1,887	750	7,887
Emergency room	105,217	1,074,921			1,180,138
Home health agency		916,556			916,556
Intravenous therapy	69,789	13,910	14,001	451	98,151
Laboratory	685,111	1,117,576	54,320	63,422	1,920,429
Nuclear medicine	17,061	78,466	2,913	995	99,435
Operating and recovery	6,500	32,695	(25)		39,170
Pharmacy	765,465	348,993	177,855	117,791	1,410,104
Physical therapy	4,544		11,203		15,747
Radiology	156,437	550,409	12,274	6,316	725,436
Respiratory therapy	498,562	110,881	66,282	17,246	692,971
Rural health		462,433			462,433
Senior class		26,230			26,230
Speech therapy	1,815		2,595	4,400	8,810
Ultrasound	69,266	116,589	3,842	2,667	192,364
Treatments	25	3,740		548,601	552,366
	<u>3,055,359</u>	<u>5,483,287</u>	<u>415,920</u>	<u>817,086</u>	<u>9,771,652</u>
	<u>3,764,989</u>	<u>5,483,287</u>	<u>572,800</u>	<u>2,182,786</u>	<u>12,003,862</u>
Less allowances					<u>4,340,334</u>
<b>NET PATIENT SERVICE REVENUES</b>					<u>7,663,528</u>

YEAR ENDED SEPTEMBER 30, 1998				
INPATIENT	OUTPATIENT	SKILLED NURSING FACILITY	BEHAVIORIAL HEALTH UNIT	TOTAL
\$ 727,955		\$ 229,770	\$ 1,138,900	\$ 727,955 229,770 1,138,900
<u>727,955</u>		<u>229,770</u>	<u>1,138,900</u>	<u>2,096,625</u>
20,405	\$ 5,883	3,227		29,515
83,875	285,350	7,600	11,675	388,500
389,824	135,884	82,138	37,511	645,357
137,365	96,125	340	5,195	239,025
500	1,450	1,405	700	4,055
70,382	818,125			888,507
	1,361,309			1,361,309
80,951	12,708	22,335	260	116,254
598,224	906,431	82,966	57,577	1,645,198
25,770	85,474	1,641	397	113,282
5,675	20,500	1,825		28,000
709,084	277,457	257,626	87,957	1,332,124
5,650		22,026		27,676
163,598	489,645	20,671	7,797	681,711
406,280	99,075	89,447	13,764	608,566
	351,463			351,463
	264,285			264,285
715		1,470	1,160	3,345
55,775	92,095	2,316	712	150,898
			416,080	416,080
<u>2,754,073</u>	<u>5,303,259</u>	<u>597,033</u>	<u>640,785</u>	<u>9,295,150</u>
<u>3,482,028</u>	<u>5,303,259</u>	<u>826,803</u>	<u>1,779,685</u>	<u>11,391,775</u> <u>4,070,112</u>
				<u>7,321,663</u>

**DEPARTMENTAL OPERATING EXPENSES**

**HOOD MEMORIAL HOSPITAL**

	YEAR ENDED SEPTEMBER 30, 1999			TOTAL
	SALARIES	PROFESSIONAL FEES	OTHER EXPENSES	
<b>NURSING SERVICES</b>				
Medical and surgical	\$ 636,916		\$ 48,807	\$ 685,723
Skilled nursing facility	266,197		7,420	273,617
Behavioral health unit	16,747		934,296	951,043
	<u>919,860</u>		<u>990,523</u>	<u>1,910,383</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Blood bank			28,459	28,459
CT scan	31,080		57,887	88,967
Central supply	57,123		110,855	167,978
Electrocardiology			50,052	50,052
Electroencephalography			4,765	4,765
Emergency room	391,056	\$ 430,220	42,241	863,517
Home health agency	466,924		165,203	632,127
Intravenous therapy			5,609	5,609
Laboratory	171,815	42,199	150,347	364,361
Nuclear medicine	6,202		17,746	23,948
Operating and recovery			4,342	4,342
Pharmacy	77,218		329,505	406,723
Physical therapy			6,142	6,142
Radiology	118,355		47,438	165,793
Respiratory therapy	62,906		46,629	109,535
Rural health	126,039		82,224	208,263
Speech therapy			3,150	3,150
Senior class	16,289		13,885	30,174
Ultrasound	5,968		13,937	19,905
	<u>1,530,975</u>	<u>472,419</u>	<u>1,180,416</u>	<u>3,183,810</u>
<b>GENERAL SERVICES</b>				
Dictary	79,886		91,785	171,671
Housekeeping	72,452		15,389	87,841
Linen			43,338	43,338
Maintenance	62,887		42,122	105,009
Utilities			95,685	95,685
	<u>215,225</u>		<u>288,319</u>	<u>503,544</u>
<b>FISCAL AND ADMINISTRATIVE SERVICES</b>				
Administrative	263,711		188,291	452,002
Medical records	28,062		21,230	49,292
Employee benefits			454,362	454,362
Insurance			123,999	123,999
	<u>291,773</u>		<u>787,882</u>	<u>1,079,655</u>



YEAR ENDED SEPTEMBER 30, 1998			
SALARIES	PROFESSIONAL FEES	OTHER EXPENSES	TOTAL
\$ 626,820		\$ 43,462	\$ 670,282
276,165		10,921	287,086
15,789		753,578	769,367
<u>918,774</u>		<u>807,961</u>	<u>1,726,735</u>
		28,718	28,718
28,759		14,243	43,002
57,768		89,467	147,235
		51,407	51,407
		2,628	2,628
258,613	\$484,584	22,281	765,478
541,061		187,433	728,494
		6,394	6,394
148,645	27,055	134,066	309,766
5,735		21,187	26,922
		8,514	8,514
78,196		283,211	361,407
		11,709	11,709
114,089		51,246	165,335
62,874		39,948	102,822
81,206		196,437	277,643
		1,395	1,395
112,177		62,747	174,924
6,435		11,242	17,677
<u>1,495,558</u>	<u>511,639</u>	<u>1,224,273</u>	<u>3,231,470</u>
		93,121	174,376
81,255		22,783	100,021
77,238		39,066	39,066
		53,110	110,775
57,665		98,169	98,169
<u>216,158</u>		<u>306,249</u>	<u>522,407</u>
		171,882	428,092
256,210		7,357	32,275
24,918		487,723	487,723
		139,332	139,332
<u>281,128</u>		<u>806,294</u>	<u>1,087,422</u>

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**REPORT OF INDEPENDENT AUDITORS 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  
Hood Memorial Hospital  
Hospital Service District No. 2 of  
Tangipahoa Parish, Louisiana

We have audited the financial statements of Hood Memorial Hospital (the Hospital – Hospital Service District No. 2 of Tangipahoa Parish, a component unit of Tangipahoa Parish, Louisiana) as of and for the year ended September 30, 1999, and have issued our report thereon dated March 8, 2000. 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance 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 one instance of non-compliance that is required to be reported under *Government Auditing Standards*.

Requirement: LSA-R.S. 39:1225 requires that the amount of security shall at all times be equal to 100% of the amount on deposit to the credit of each depositing authority, except that portion of the deposits insured by any governmental agency insuring bank deposits, which is organized under the laws of the United States.

Finding: Cash was unsecured in the amount of \$451,733 as of September 30, 1999. This was also a finding as of September 30, 1998 (\$136,037 was unsecured).

Management's response: The problem has been addressed and has been corrected with full cooperation of the institution involved. All funds are fully pledged at this time and the involved institution will continue to send monthly statements showing full coverage.

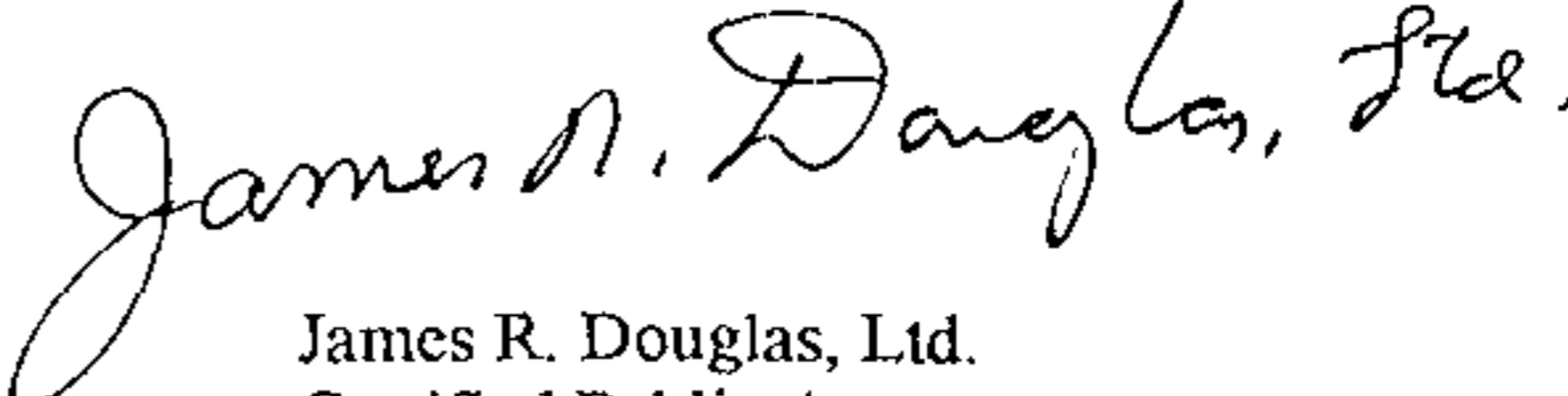
Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter 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 the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The Hospital is not large enough to permit an adequate segregation of employee duties for effective internal accounting control over the purchasing (invoice approval, processing, and general ledger) and financial reporting (journal entry preparation, approval, and recordation) cycles.

A material weakness is a condition in which the design or operations 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 functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

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

  
James R. Douglas, Ltd.  
Certified Public Accountants

March 8, 2000