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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, 2003 and 2002**

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 reports are available for public inspection at the Clerk's Office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4-21-04

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

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2003 AND 2002

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HOSPITAL SERVICE DISTRICT NO. 3

PARISH OF ST. MARY STATE OF LOUISIANA

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the financial performance of Hospital Service District No. 3 provides an overview of the District's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the District's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The District's net assets decreased by \$(20,022) from \$1,871,834 on September 30, 2002 to \$1,850,911 on September 30, 2003.

The District's total operating revenues were \$235,900 and operating expenses were \$287,410 resulting in operating loss of \$(52,410).

The interest earned on the money market account and the certificate of deposits was \$15,360 for the year.

Cash and cash equivalents increased by \$5,087 for the year ended September 30, 2003.

USING THIS ANNUAL REPORT

This annual report consists of three parts – Management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements consist of the fund financial statements and the notes to the financial statements. The fund financial statements focus on individual parts of the District, offering short and long-term financial information about the activities that the government operates (the businesses).

BASIC FINANCIAL STATEMENTS

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets, the Statement of Revenues and Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The *Statement of Net Assets* (Page 7) presents the current and non-current portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (Page 8) presents information showing how the District's assets changed as a result of current operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transaction occurs. As a result, there are transactions included that will not affect cash until future periods.

The Statement of Cash Flows (Pages 9 & 10) presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE DISTRICT

Condensed Statements of Net Assets As of September 30, 2003 and 2002

	2003	2002	Change
Current assets	\$ 89,600	\$ 82,945	\$ 16,655
Non-current assets:			
Restricted assets	404,120	418,739	(4,619)
Capital assets - net	1,132,767	1,182,732	(49,965)
Total assets	\$ 1,646,499	\$ 1,684,416	\$ (37,916)
Current liabilities:	\$ 9,579	\$ 10,482	\$ (903)
Total liabilities	\$ 9,579	\$ 10,482	\$ (903)
Net assets:			
Invested in capital assets	\$ 1,132,767	\$ 1,182,732	\$ (49,965)
Restricted	404,120	418,739	(4,619)
Unrestricted	89,604	72,463	17,141
Total net assets	\$ 1,636,511	\$ 1,673,934	\$ (37,423)

Restricted net assets, represent those assets that are restricted for future building improvements, repairs and capital outlay on equipment. For the years ended September 30, 2003 and 2002 the District expended \$28,672 and \$26,963 on repairs and capital outlay.

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

Condensed Statement of Revenues,
Expenses and Changes in Net Assets
For the Years Ended September 30, 2003 and 2002

	2003	2002	Change
Operating revenues	\$ 235,008	\$ 235,008	\$ ---
Operating expenses	287,412	296,267	(9,855)
Operating income	<u>\$ (52,404)</u>	<u>\$ (61,259)</u>	<u>\$ (8,855)</u>
Non-operating revenues			
Interest income	15,389	13,581	1,808
Total non-operating revenues	<u>15,389</u>	<u>13,581</u>	<u>1,808</u>
Change in net assets	\$ (37,015)	\$ (47,678)	\$ 10,663
Total net assets, beginning of year	1,673,604	1,721,620	(47,986)
Total net assets, end of year	<u>\$ 1,636,589</u>	<u>\$ 1,673,934</u>	<u>\$ (37,345)</u>

Net assets of the District decreased by \$37,023, or 2% from September 30, 2002 to September 30, 2003. Total expenses decreased by 3% from \$296,267 as of September 30, 2002 to \$287,412 as of September 30, 2003, primarily because of the decrease in costs made by the District during the year ended September 30, 2003.

CAPITAL ASSETS

As of September 30, 2003 and September 30, 2002, the District had \$2,805,304 and \$2,685,139 respectively invested in a broad range of capital assets, including land, buildings and improvements, and equipment. During the years ended September 30, 2003 and September 30, 2002 the District had capital additions of \$20,168 and \$1,600.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, the St. Mary Parish Council and other interested parties with a general overview of the funds maintained by the District and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Billy Mayon accountant (885) 385-8211, Hospital Service District No. 3 at 1101 Southeast Blvd. Morgan City, Louisiana 70380.

ADAMS & JOHNSON

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Hospital Service District No. 3
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 Parish of St. Mary, State of Louisiana, as of and for the years ended September 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. These 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 audit provides 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 the Hospital Service District No. 3 as of September 30, 2003 and 2002, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments. This resulted in a change in format and content of the financial statements as of September 30, 2003.

The Management's Discussion and Analysis on pages 1 to 4 is not a required part of the financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 our report dated January 5, 2004 on our consideration of the Hospital Service District No. 3's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in considering the results of our audit.



ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
January 5, 2004

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

COMPARATIVE STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPE
September 30, 2003 and 2002

	9/30/03	9/30/02
ASSETS		
Current assets:		
Cash	\$ 88,138	\$ 79,431
Prepaid expenses	2,939	3,514
Rent receivable	11,547	—
Total Current Assets	\$ 102,624	\$ 82,945
Noncurrent Assets:		
Restricted Assets		
Certificates of deposit	\$ 404,384	\$ 418,269
Accrued interest	9,758	2,470
Capital assets (net of accumulated depreciation)	1,132,787	1,182,732
Total Noncurrent Assets	1,546,929	1,603,471
TOTAL ASSETS	\$ 1,649,553	1,686,416
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Payroll taxes payable	\$ 768	\$ 754
Accounts payable	9,751	9,738
TOTAL CURRENT LIABILITIES	10,519	10,492
Net Assets:		
Invested in Capital Assets	\$ 1,132,787	\$ 1,182,732
Restricted	414,120	418,738
Unrestricted	88,894	72,693
TOTAL NET ASSETS	\$ 1,635,801	\$ 1,673,923

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 NET ASSETS
PROPRIETARY FUND TYPE
Years Ended September 30, 2003 and 2002

	<u>9/30/03</u>	<u>9/30/02</u>
OPERATING REVENUES		
Building & property rental	\$ 235,900	\$ 235,900
Total Operating Revenues	\$ 235,900	\$ 235,900
OPERATING EXPENSES		
Advertising	\$ 239	\$ 175
Auto expense	402	-
Board members compensation	3,800	2,850
Depreciation	79,130	79,085
Office supplies	749	990
Insurance	48,187	44,919
Repairs and maintenance	8,747	29,483
Secretary/bookkeeping fees	8,000	8,740
Salaries	69,286	66,034
Payroll taxes	5,289	5,624
Uniforms	583	-
Janitorial	67,201	66,712
Telephones	1,210	1,193
Rentals	2,078	1,281
Audit fees	2,366	2,295
Total Operating Expenses	<u>387,412</u>	<u>296,297</u>
INCOME FROM OPERATIONS	\$ (62,412)	\$ (61,297)
NON-OPERATING REVENUES		
Interest income	15,399	13,991
Total Nonoperating Revenues	<u>15,399</u>	<u>13,991</u>
CHANGE IN NET ASSETS	\$ (47,023)	\$ (47,899)
NET ASSETS AT BEGINNING OF YEAR	<u>1,673,834</u>	<u>1,721,620</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,626,811</u>	<u>\$ 1,673,834</u>

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, 2003 and 2002

	<u>9/30/03</u>	<u>9/30/02</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from rent	\$ 233,453	\$ 238,328
Payment for supplies and operating services	(145,533)	(157,715)
Payment to employees	(72,085)	(58,884)
Net Cash Provided by Operating Activities	<u>\$ 5,824</u>	<u>\$ 11,829</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds of investments	\$ 11,905	\$ -
Purchase of investments	-	(3,580)
Interest earned	8,163	15,380
Net Cash Provided by Investing Activities	<u>20,068</u>	<u>11,800</u>
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital expenditures	<u>\$ (20,155)</u>	<u>\$ (1,500)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(20,155)</u>	<u>(1,500)</u>
Net increase in cash and cash equivalents	\$ 5,697	\$ 32,099
Cash and cash equivalents, beginning of year	<u>79,431</u>	<u>86,792</u>
Cash and cash equivalents, end of year	<u>\$ 85,128</u>	<u>\$ 79,431</u>

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 (Continued)
 Proprietary Fund Type
 Years Ended September 30, 2003 and 2002

	<u>09/30/03</u>	<u>09/30/02</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Income (loss) from operations:	\$ (82,410)	\$ (81,267)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	70,130	70,005
Change in current assets and liabilities:		
Decrease (increase) in prepaid expenses	580	(1,333)
Decrease (increase) in net receivable	(11,547)	3,228
Increase in payroll taxes payable	34	33
(Decrease) increase in accounts payable	(827)	1,052
Total adjustments	<u>58,360</u>	<u>72,985</u>
Net Cash Provided by Operating Activities	<u>\$ 2,684</u>	<u>\$ 11,825</u>

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, 2003 and 2002

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, 1988. The District encompasses all of the territory situated in Wards 5 and 6 of St. Mary Parish.

The District is a component unit and an integral part of the 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D) **Change in Accounting:**

This financial statement has been prepared in conformity with GASS No. 34, in June 1989. GASS unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations is included in this report. This and other changes are reflected in the accompanying financial statements, including the notes to the financial statements.

E) **Fixed Assets and Long-Term Liabilities:**

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Additions, improvements, and expenditures that add materially to the productive capacity, or extend the life of an asset, are capitalized. Donated property, plant and equipment are valued at their estimated fair value on the date donated. As of September 30, 2003 and September 30, 2002, all assets on the balance sheet are valued at historical cost.

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 & Improvements	10 - 40 years
Equipment	5 - 10 years

F) **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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G) 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 2003 & 2002, unrecorded liabilities for the above years are an immaterial amount.
- H) Investments:**
Investments, consisting of Certificates of Deposit, are stated at cost, which approximates market. Investment income is reported as non-operating revenue.
- I) Reporting Entity:**
GAAS 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, 2003. 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.
- J) 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

	Stated Value <u>9-30-03</u>	Bank Balance <u>9-30-03</u>
Cash	\$ 55,128	\$ 57,361
Certificates of deposit	404,354	404,354
Total	<u>\$ 459,482</u>	<u>\$ 461,715</u>

	Stated Value <u>9-30-02</u>	Bank Balance <u>9-30-02</u>
Cash	\$ 79,431	\$ 89,477
Certificates of deposit	418,289	418,289
Total	<u>\$ 497,720</u>	<u>\$ 507,766</u>

The District's cash, cash equivalents and investments are categorized to give an indication of the level of risk assumed by the District.

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized or securities uninsured or unregistered and held by the counter party (this includes OMB Pool investments and mutual fund shares held in "book entry only" form by brokerage firms).

Cash and investments categorized by level of risk are:

Category 2	\$ 389,482	\$ 55,700
Category 1	299,890	400,066
Total	<u>\$ 689,372</u>	<u>\$ 455,766</u>

NOTE 3 - RESTRICTED ASSETS

Assets whose use is restricted include cash, cash equivalents and accrued interest earned on cash accounts held for future capital improvements. The composition of assets whose use is limited at September 30, 2003 and 2002 is set forth below.

	9-30-03	9-30-02
Certificates of Deposit	\$ 404,364	\$ 418,289
Accrued Interest Receivable	\$ 739	2,470
Total	\$ 414,120	\$ 418,739

September 30, 2003:

These amounts are classified on the balance sheet as non-current in the amount of \$ 414,120 for future capital improvements, and repairs and maintenance.

September 30, 2002:

These amounts are classified on the balance sheet as non-current in the amount of \$418,739 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:

	Balance 9-30-02	Additions	Retirements	Balance 9-30-03
Land	\$ 48,999	\$ ---	\$ ---	\$ 48,999
Buildings:				
Cairn House	594,481	---	---	594,481
Fairview	1,520,288	---	---	1,520,288
Improvements	303,532	---	---	303,532
Equipment	417,800	20,165	---	437,965
	\$ 2,885,139	\$ 20,165	\$ ---	\$ 2,905,304
Less:				
Accumulated Depreciation	(1,702,407)	70,130		(1,772,537)
Net Property, Plant & Equip.	\$ 1,182,732			\$ 1,132,767

Depreciation expense for the years ended September 30, 2003 and 2002 was \$ 70,130 and \$ 70,066.

NOTE 5 - AD VALOREM TAXES

The District did not assess property taxes for the years ended September 30, 2003 and September 30, 2002. 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's employees are covered under the Federal Insurance Contribution Act (Social Security). The District's contributions for the year ended September 30, 2003 and 2002 was \$ 5,299 and \$ 5,952.

The District also established a savings incentive match plan, a Simple Retirement Account. All employees are eligible to participate regardless of compensation and years of service. The District will contribute a matching contribution to each eligible employee's Simple IRA equal to the employee's salary deflection contributions up to a limit of 3% of the employee's compensation for the calendar year. All the contributions under this plan are fully vested and non-forfeitable. During the years ended September 30, 2003 and 2002 the District contributed \$ 2,078 and \$ 1,981 into this plan.

NOTE 7 - RESTRICTED NET ASSETS

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

	<u>9-30-03</u>	<u>9-30-02</u>
Capital improvements, repairs and maintenance	\$ 414,120	\$ 418,739
Total reserved	<u>\$ 414,120</u>	<u>\$ 418,739</u>

NOTE 8 - CLOSURE OF HOSPITAL

On January 31, 1985, 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.

NOTE 9 - ECONOMIC DEPENDENCE

Currently these entities account for 100% of the District's rental income, Fairview Treatment Center, the Drug Court and the Claire House. Fairview Treatment Center accounts for 68%, the Drug Court 6% and the Claire House for Women and Children 22% 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, 4.88 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 to Fairview Treatment Center and the Claire House. These two entities are component units of the St. Mary Parish 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.

HOSPITAL SERVICE DISTRICT NO. 3
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 SCHEDULE OF INSURANCE IN FORCE
 For the Years Ended September 30, 2003 and 2002
 (Unaudited)

September 30, 2003

Insurer	Type of Coverage	Coverage	Exp. Date
United National Group	General Liability		11/01/03
	Bodily Injury:		
	Each Occurrence	\$ 1,000,000	
	Aggregate	\$ 2,000,000	
Lafayette Ins.	Property		11/01/03
	Building	\$ 3,530,800	
	Contents	\$ 30,100	
	Building (Claire House)	\$ 607,800	
Auribon Ins.	Flood - Building	\$ 140,400	12/31/03
LHWCC	Workmen's Compensation		
	By Accident	\$ 1,000,000	Monthly
	Aggregate	\$ 1,000,000	
	Each Employee	\$ 1,000,000	

September 30, 2002

Insurer	Type of Coverage	Coverage	Exp. Date
United National Group	General Liability		11/01/02
	Bodily Injury:		
	Each Occurrence	\$ 1,000,000	
	Aggregate	\$ 2,000,000	
Lafayette Ins.	Property		11/01/02
	Building	\$ 3,530,800	
	Contents	\$ 30,100	
	Building (Claire House)	\$ 607,800	
Auribon Ins.	Flood - Building	\$ 140,400	12/31/02
LHWCC	Workmen's Compensation		
	By Accident	\$ 1,000,000	Monthly
	Aggregate	\$ 1,000,000	
	Each Employee	\$ 1,000,000	

HOSPITAL SERVICE DISTRICT NO. 3

SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
September 20, 2003 and 2002

September 20, 2003

	Per Diem	Meetings Attended
Ovay Rogers	\$ 600	11
Stan Beaubien	600	11
Jerry Adams	550	10
Caray Staples	550	11
Sonny Legendre	500	10
	<u>2,800</u>	
	\$ 2,800	

September 20, 2002

	Per Diem	Meetings Attended
Ovay Rogers	\$ 600	12
Stan Beaubien	550	11
Jerry Adams	400	8
Caray Staples	500	10
Sonny Legendre	600	12
	<u>2,650</u>	
	\$ 2,650	

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, 2003 AND 2002

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MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MEMBER
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Commissioners
Hospital Service District No. 3
1101 Southeast 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, 2009 and 2008, and have issued our report thereon dated January 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 purpose 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. The reportable condition is described in the accompanying schedule of findings and questioned cost as item 03-1.

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 item 03-1 to be a material weakness.

This report is intended solely for the use of management, 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
Certified Public Accountants

Baton Rouge, Louisiana
January 5, 2004

HOSPITAL SERVICE DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2003

A. Summary of Audit Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of Hospital Service District No. 3.
2. No instances of noncompliance material to the financial statements of Hospital Service District No. 3, which would be reported in accordance with Government Auditing Standards, were disclosed during the audit.
3. One reportable condition in internal control, which is a material weakness, see finding item 03-01.

B. Findings:

03-01 Finding: Lack of segregation of duties.

Cause: 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, 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 District doesn't have any employees hired to handle the accounting function and they sub-contrat 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 that the District continues to closely monitor all records and transactions.

Response: Management concurs with recommendations.

HOSPITAL SERVICE DISTRICT NO. 3
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2002

Summary of Prior Findings:

Finding: Lack of segregation of duties.

Status: This finding still exists. See 03-01 on the schedule of the current year findings and questioned cost.