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LOWER CAMERON HOSPITAL SERVICE DISTRICT
SOUTH CAMERON MEMORIAL HOSPITAL
ANNUAL FINANCIAL REPORT
OCTOBER 31, 1998 AND 1997

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

Release Date MAY 19 1999

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lower Cameron Hospital Service District
South Cameron Memorial Hospital
Cameron, Louisiana

We have audited the component unit financial statements of South Cameron Memorial Hospital as of October 31, 1998 and 1997 and the years ended. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on the component unit 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 component unit 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 component unit financial statements referred to above present fairly, in all material respects, the financial position of South Cameron Memorial Hospital as of October 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 1999 on our consideration of South Cameron Memorial 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 component unit financial statements taken as a whole. The accompanying financial information, listed as "supplementary data" in the table of contents, is presented for purposes of additional analysis and is not a required part of the component unit financial statements.

Members

American Institute of Certified Public Accountants

Louisiana Society of Certified Public Accountants

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

McMillen and Monahan CPAs

April 27, 1999

SOUTH CAMERON MEMORIAL HOSPITAL
COMPARATIVE BALANCE SHEET
OCTOBER 31, 1998 AND 1997

Exhibit A

ASSETS

	<u>1998</u>	<u>1997</u>
<u>Current Assets:</u>		
Cash (Note 1D)	\$ 292,808	\$ 305,319
Accounts Receivable (Note 1I)	5,778,728	4,208,385
Due from Other Governments (Note 6)	---	785,782
Due from Other Funds (Note 11)	50,000	37,500
Miscellaneous Receivable	16,963	49,235
Federal Grants Receivable	---	49,226
Inventory, at Cost (Note 1F)	129,433	125,210
Prepaid Expenses	213,507	38,295
	-----	-----
Total Current Assets	6,481,439	5,598,952
 <u>Restricted Assets: (Note 1E)</u>		
Cash	135,195	135,349
	-----	-----
Total Restricted Assets	135,195	135,349
 <u>Other Assets: (Note 4)</u>		
Land & Improvements	33,427	30,826
Buildings	2,699,106	2,200,549
Machinery & Equipment	2,734,661	2,309,670
Accumulated Depreciation	(2,923,105)	(2,339,222)
Goodwill	1,600	1,650
	-----	-----
Total Other Assets	2,545,689	2,203,473
	-----	-----
Total Assets	\$ 9,162,323	\$ 7,937,774
	=====	=====

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
COMPARATIVE BALANCE SHEET
OCTOBER 31, 1998 AND 1997

Exhibit A

LIABILITIES AND FUND EQUITY

	<u>1998</u>	<u>1997</u>
<u>Current Liabilities:</u>		
Accounts Payable	1,223,860	953,611
Due to Other Funds (Note 11)	50,000	37,500
Due to MedCap (Note 11)	525,683	1,749,570
Other Payables	2,677	---
Capital Leases Payables (Note 8)		
Rockford Industries, Inc.	3,408	---
Bankers Leasing Association	6,605	6,569
Notes Payable (Note 14)		
Transamerica Insurance Co.	148,631	---
TriSpan Health Services	805,893	---
Cameron State Bank	46,693	---
Bonds Payable (Note 13)	108,796	101,967
Compensated Absences Payable (Note 5)	72,521	83,500
Accrued Liabilities	209,471	89,599
	-----	-----
Total Current Liabilities	3,204,238	3,022,316
<u>Long Term Liabilities:</u>		
Capital Leases Payables (Note 8)		
Rockford Industries, Inc.	9,008	---
Bankers Leasing Association	9,697	16,302
Note Payable (Note 14)		
Cameron State Bank	272,911	---
Bonds Payable (Note 13)	170,249	288,619
	-----	-----
Total Long Term Liabilities	461,865	304,921
	-----	-----
Total Liabilities	3,666,103	3,327,237
<u>Fund Equity:</u>		
Contributed Capital	425,464	425,464
Retained Earnings:		
Unreserved, Undesignated	5,070,756	4,185,073
	-----	-----
Total Fund Equity	5,496,220	4,610,537
	-----	-----
Total Liabilities & Fund Equity	\$ 9,162,323	\$ 7,937,774
	=====	=====

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

Exhibit B

For the Years Ended October 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Net Patient Service Revenues (Note 1I)	\$ 13,913,561	\$ 13,162,050
<u>Other Operating Revenues:</u>		
Ambulance Administration Fees	327,500	175,000
Meals On Wheels	86,775	145,414
	-----	-----
Total Other Operating Revenues	414,275	320,414
	-----	-----
Total Operating Revenues	14,327,836	13,482,464
<u>Operating Expenses:</u>		
Nursing and Physician Services	1,531,588	1,544,540
Other Professional Services	2,847,545	2,387,304
General Services	714,852	706,378
Administrative and Fiscal Services	1,506,627	2,167,356
Chemical Dependency Unit	---	52,467
Home Health	210,802	299,060
Calcasieu Oaks Facility	4,092,594	3,049,232
Holly Hill House Facility	32,409	219,666
Rural Health Clinics	357,395	299,513
Amortization of Goodwill	50	50
Depreciation (Note 1B)	354,127	270,992
	-----	-----
Total Operating Expenses	11,647,989	10,996,558
<u>Other Operating Expenses:</u>		
Ambulance Tax Credit	225,116	160,281
Ambulance Administration Fees	327,500	175,000
Meals on Wheels	106,514	127,443
Bad Debt Expense	669,844	904,964
	-----	-----
Total Other Operating Expenses	1,328,974	1,367,688
	-----	-----
Operating Income (Loss)	\$ 1,350,873	\$ 1,118,218

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS

Exhibit B

For the Years Ended October 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<u>Non-Operating Revenues (Expenses):</u>		
Ad Valorem Taxes (Note 2)	\$ 948,712	\$ 322,199
State Revenue Sharing	2,718	2,601
Federal and State Grants	2,601	336,557
Miscellaneous	31,487	25,915
Interest Income	15	6,514
Interest Expense	(101,399)	(38,220)
Gain (Loss) on Sale of Assets	(20,764)	539
	-----	-----
Total Non-Operating Revenues	863,370	656,186
	-----	-----
Net Income	2,214,243	1,774,404
Retained Earnings - November 1		
As Originally Reported	4,185,073	2,120,013
Prior Period Adjustments (Note 16)	(829,855)	290,016
Consolidation of Ambulance District No. 2	(498,705)	---
	-----	-----
Retained Earnings - November 1		
As Restated	2,856,513	2,410,669
	-----	-----
Retained Earnings - October 31	\$ 5,070,756	\$ 4,185,073
	=====	=====

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
COMPARATIVE STATEMENT OF CASH FLOW

Exhibit C

For the Years Ended October 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 1,350,873	\$ 1,118,219
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	354,177	271,042
Prior Period Adjustment	(36,244)	290,016
Change in Assets and Liabilities:		
Decrease (Increase):		
Accounts Receivables, Net of Allowance Due from Other Governments	(1,525,793)	(1,712,470)
Federal Grants Receivable	49,226	(49,226)
Miscellaneous Receivables	32,272	(49,235)
Inventories	7,115	32,181
Prepaid Expenses	7,161	(7,295)
(Decrease) Increase:		
Accounts Payable	268,680	(464,597)
Compensated Absences Payable	(10,979)	3,621
Other Payables	2,677	---
Accrued Liabilities	64,333	(37,277)
	-----	-----
Total Adjustments	(787,375)	(1,920,977)
	-----	-----
Net Cash Provided by (used for) Operating Activities	563,498	(802,759)
Cash Flows from Noncapital Financing Activities:		
Ad Valorem Taxes	948,712	322,199
Intergovernmental Revenue	5,319	339,234
Interest Income	15	6,514
Miscellaneous	31,487	25,915
(Gain) Loss on Sale of Assets	20,764	539
Cash Transferred in With Consolidation of Ambulance Dist.#2	27,834	---
	-----	-----
Net Cash Provided by (used for) Noncapital Financing Activities	\$ 1,034,131	\$ 694,401

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
 COMPARATIVE STATEMENT OF CASH FLOW
 For the Years Ended October 31, 1998 and 1997

Exhibit C
 (Continued)

	<u>1998</u>	<u>1997</u>
Cash Flows from Capital And Related Financing Activities:		
Capital Expenditures	\$ (100,724)	\$ (41,983)
Interest Paid on Capital Financing Activities	(101,399)	(38,220)
Principal Payments for Capital Expenditures	(7,052)	(125,380)
Principal Payments for Insurance Financing	(72,038)	---
Net Proceeds from Accounts Receivable Financing	(1,225,531)	1,008,973
Principal Payments on Bonds	(111,541)	(112,950)
Decrease in Restricted Cash	154	19,504
Proceeds from Sale of Building	7,991	---
	-----	-----
Net Cash Provided by (used for) Capital and Related Financing Activities	(1,610,140)	709,944
	-----	-----
Net Increase (Decrease) in Cash & Cash Equivalents	(12,511)	601,586
 Cash and Cash Equivalents:		
At Beginning of Year	305,319	(296,267)
	-----	-----
At End of Year	\$ 292,808	\$ 305,319
	=====	=====

Non-Cash Financing Activity:

During the year ended October 31, 1998, the Hospital entered into a non-cash financing activity for an equipment lease. The total amount financed was \$12,900.

Additionally, the Hospital entered into a non-cash financing activity for the purchase of prepaid insurance. The total amount financed was \$220,868.

The Hospital entered into a contract for the management of Ambulance Service District No. 2 of Cameron Parish, effective November 1, 1997. The assets and liabilities of the Ambulance District are consolidated with the Hospital. The net amount transferred was \$498,709.

"See accompanying auditors' report and notes to financial statements."

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

Organization and Background

The South Cameron Memorial Hospital (legal name: Lower Cameron Hospital Service District) was established by the Cameron Parish Police Jury with the appointment of a five-man Board of Commissioners on July 15, 1959. It is operated as a nonprofit corporation and, for reporting purposes, is a component unit of the Cameron Parish Police Jury. Construction was financed through a bond issue (since retired by the district), U. S. (Hill-Burton) funding and local contributions. The hospital receives community support in the form of a maintenance and operation property tax as well as various state and federal funding. The Hospital provides a full range of health care services.

In 1988, the Hospital Service District entered into an agreement (joint service agreement) with the Lower Cameron Hospital Ambulance Service District whereby the Hospital would provide monthly accounting services, including the collecting and disbursing of funds as well as the billing for the ambulance patients. The Ambulance Service District pays \$12,500 per month for these services. They are also stationed at the Hospital. These two districts are combined in this report.

On November 1, 1997, the Hospital Service District also entered into an intergovernmental agency agreement with the Cameron Parish Ambulance Service District No. 2. The agreement states that the Hospital shall manage and operate the equipment and facilities of the Ambulance Service District as well as provide ambulance services to the members of the Ambulance Service District.

The Cameron Parish Ambulance Service District No. 2 operated and maintained ambulance stations in various areas throughout the parish. These stations include locations at Holly Beach, Johnson Bayou, Hackberry, and Grand Lake. The term of the agreement is effective for a sixty (60) month period ending on November 1, 2002, at which time it shall be automatically renewed for successive one year periods, unless the Hospital or the Ambulance Service District terminate the agreement by providing thirty (30) days notice to the other party prior to the end of the term. The Cameron Parish Ambulance Service District No. 2 is also combined in this report.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the South Cameron Memorial Hospital conform to generally accepted accounting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

Reporting Entity Criteria

The District is a "component" of the Cameron Parish Police Jury entity. The criteria and their application to the Hospital Service District are set out briefly below:

Responsibility to Elected Officials. The lowest level of legislative authority (elected) governing the District is the Cameron Parish Police Jury who, in turn, appoint the District's governing Board. This criterion indicates, therefore, a "component" status for the District vis-a-vis the Police Jury.

Exercise of Oversight Responsibility. The Board of Trustees has been given broad authority for the operation of the District by the Police Jury. While the Police Jury continues to monitor and support the Board, the "linkage" or relationship is not "authoritative".

That is, the Board makes financial and managerial decisions in virtual autonomy from the Police Jury. There is no day-to-day reporting or control link between the Police Jury and the Board. This criterion does not indicate "component" status for the Board.

Scope of Public Service. The Hospital Service District is established primarily for the benefit of the residents of Cameron Parish. This criterion indicates a "component" relationship for the District. The Hospital Service District operates a hospital doing business as South Cameron Memorial Hospital and two rural clinics doing business as Cameron Rural Health Clinic and Grand Lake/Sweet Lake Rural Health Clinic. An additional facility, Calcasieu Oaks, was opened in Calcasieu Parish in 1995. Its operation includes a Medicare certified distinct part psychiatric unit which provides geriatric psychiatric care and other mental health care services.

Because of the broad oversight authority consistently granted by the Police Jury to the Board of Trustees over the years and the unique function of the Hospital whose responsibilities, purposes and organization are vastly different from existing Police Jury activities, separate reporting is considered appropriate. The accompanying financial statements present information only on the Lower Cameron Hospital and Ambulance Service Districts and do not present information on the Cameron Parish Police Jury and the general government services provided by that body.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

The following is a summary of certain significant accounting policies:

A. Fund Accounting

The accounts of the South Cameron Memorial Hospital, a political subdivision, are maintained as a proprietary (enterprise) fund. Resources are allocated to and accounted for as an enterprise fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The other funds and account groups normally found in governmental entities are not utilized by the South Cameron Memorial Hospital because of its single, special purpose which dictates its operation as a proprietary fund per the following:

Proprietary Fund -

Enterprise Fund

Enterprise Funds are 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 the periodic termination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, etc.

B. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

All proprietary funds are accounted for on a "cost of services" or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

B. Fixed Assets and Long-Term Liabilities (continued)

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. In compliance with medicare regulations, depreciation is provided over the estimated useful lives using the straight-line method after 1971. Prior to 1972, accelerated depreciation methods were used. The estimated useful lives are as follows:

Buildings and Improvements.....	8 - 50 Years
Equipment.....	3 - 20 Years

All fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred.

D. Cash and Cash Equivalents

As reflected in Exhibit A, the South Cameron Memorial Hospital has cash totaling \$292,808 at October 31, 1998, including \$893 in petty cash. As of October 31, 1997, the Hospital had cash totaling \$305,319 at October 31, 1997 including \$1,156 in petty cash.

Deposits in excess of federally insured amounts are required by statute to be protected by collateral of equal market value. Authorized collateral includes general obligations of the U.S. government, obligations issued or guaranteed by an agency established by the U.S. government, general obligation bonds of any state of the U.S. or any Louisiana parish, municipality or school district.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

D. Cash and Cash Equivalents (continued)

Deposits with financial institutions should be evaluated for risk and classified in one of the three following categories:

Category 1 - (which represents the lowest level of risk) includes deposits that are collateralized with securities held by the Hospital or its agent in the Hospital's name.

Category 2 - includes collateralized deposits held by the pledging financial institution's trust department or agent in the Hospital's name.

Category 3 - includes uncollateralized deposits or deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Hospital's name.

The Hospital's deposits are categorized below in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3 to give an indication of the level of risk assumed at year end.

Bank	Bank Balance	Book Balance	Credit Risk Category
Hibernia Bank	7,867	7,867	(1)
Bank of New York	100,000	100,000	(1)
Bank of New York	35,195	35,195	(3)
Cameron State Bank	100,000	100,000	(1)
Cameron State Bank	520,269	184,047	(3)
	-----	-----	
	763,331	427,109	
	=====	=====	

The Hospital's cash balance at the Bank of New York includes amounts above the FDIC limit of \$100,000. However, it is invested in the U.S. Treasury fund and is collateralized with securities held by the pledging financial institution but not in the Hospital's name.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

D. Cash and Cash Equivalents (continued)

For purposes of the statement of cash flows, the South Cameron Memorial Hospital considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

E. Restricted Assets

The Hospital maintains a cash account with the Bank of New York which is restricted to payment of bond principal and interest. As of October 31, 1998 and 1997, the balance was \$135,195 and \$135,349, respectively.

F. Inventories

Inventory of supplies in the proprietary fund is valued at cost (first-in, first-out).

G. Charity Care

The Hospital provides care without charge to patients who meet certain criteria under its Hill-Burton Charity Care policy as well as the Louisiana Department of Health & Hospitals Disproportionate Share Medicare Program. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital does maintain records to identify and monitor the level of charity care it provides. As of October 31, 1998 and 1997, charity care in the amount of \$23,004 and \$28,539 respectively, was given during the fiscal years. The Hospital was certified as having met its uncompensated services obligation under the Hill-Burton program in 1996.

H. Cost Reimbursement

A statement of Medicare reimbursable cost has been prepared for the fiscal year ended October 31, 1998 and not yet filed with the intermediary.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

I. Accounts Receivable and Net Patient Service Revenue

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

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.

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.

Blue Cross. Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment.

Revenue Recognition Policies. Generally accepted accounting principles require that the revenue and related receivables for health care services be recorded on the accrual basis at the Hospital's full established rates.

The provision for contractual adjustments (the difference between the established rates and the third party payments) and discounts (the difference between established rates and the amount collectible) are recognized on the accrual basis and deducted from gross service revenue to determine net service revenue. Contractual adjustments, discounts, and an allowance for uncollectible accounts are recorded in the period during which the services are provided in order to report the related receivable at net realizable value.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

I. Accounts Receivable and Net Patient Service Revenue (continued)

The Hospital receives additional prospective payments ("disproportionate share payments") in return for serving a disproportionate share of low income patients. These payments are in addition to the reimbursements discussed above. It is management's broad opinion that the inpatient Medicare/Medicaid accounts receivable, which represents a substantial portion of the account balance, is collected by two means: (1) primarily through the traditional third party payment schedule and (2) secondarily through the DSP payments.

Accordingly, it is management's opinion that the current inpatient receivables are collectible. The Hospital has established an allowance for doubtful accounts for the outpatient receivable amounts, specific accounts that are deemed to have a high probability of being uncollectible (even though collection procedures are still being followed), and an historically calculated allowance for other receivable accounts. These receivables are recognized as bad debts through the establishment of an allowance account. The above allowance accounts, with the exception of the separately identified accounts to be adjusted, are determined using an historical percentage.

The allowance accounts set up at the end of the year were \$2,193,709 and \$1,686,790 for October 31, 1998 and 1997 respectively.

Concentration of Credit Risk. The majority of the accounts receivable is for patients who are covered by the above third party payors; therefore management does not believe that there is a significant exposure for loss. The majority of patients served reside in the surrounding communities.

Pledged Accounts Receivables. The Hospital entered into an agreement dated June 1, 1996, with Medcap Credit Co. and Medical Capital, L.L.C. for the sale of healthcare receivables. The amount of contingent liability as of October 31, 1998 and 1997 was \$525,683 and \$1,749,570, respectively.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

2. Ad Valorem Taxes

The following is a schedule of the 1998 property tax calendar that is applicable to the Hospital:

- (1) Levy date: October, 1997
- (2) Billing date: November, 1997
- (3) Collection dates: December, 1997 to May, 1998
- (4) Due dates: On Receipt
- (5) Delinquent date: December 31, 1997
- (6) Lien date: March, 1998

These taxes, less certain uncollectibles, collection costs and adjustments, plus minor amounts of prior year taxes are reported in both the fiscal year ended October 31, 1998 and 1997.

3. Retirement Commitments

Full-time employees were members of the Parochial Employees' Retirement System of Louisiana, a multiple-employer defined contribution plan. Contributions to the system are made by both employees and by the Hospital as a percentage of salaries. However, the Hospital discontinued participation in the Parochial Employees' Retirement System of Louisiana during the fiscal year ended October 31, 1997. The employees now participate in the Federal Social Security System.

The Hospital does participate in a 403(B) plan with Northern Life Insurance Company for the benefit of its employees. The Hospital suspended contributions on behalf of the employees in the fiscal year ended October 31, 1997. The only contributions made to the plan are by the employees themselves.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

4. Changes in Property, Plant and Equipment

A summary of changes in proprietary fund type property, plant and equipment at October 31, 1998 are as follows:

	October 31, 1997	Additions	Deletions	October 31, 1997
Land and Land Improvements	\$ 30,826	2,601	\$ --	\$ 33,427
Bldgs. and Impvmts:				
Buildings	1,718,784	531,304	(33,500)	2,216,588
Additions	313,089	--	--	313,089
Improvements	170,248	753	--	171,001
Equipment:				
Air Cond. Units	59,037	2,225	--	61,262
Radio Tower and Antenna System	21,635	--	--	21,635
Ambulances and Ambulance Equipment	214,110	370,083	--	584,193
Other Equipment	2,013,315	52,684	--	2,065,999
	-----	-----	-----	-----
Total	4,541,044	959,650	(33,500)	5,467,194
Accumulated Depreciation	(2,339,222)	(588,628)	4,745	(2,923,105)
	-----	-----	-----	-----
Net	2,201,822	371,022	(28,755)	2,544,089
Goodwill	1,650	(50)	--	1,600
	-----	-----	-----	-----
Net Property, Plant, Equip., & Other Assets	\$ 2,203,472	370,972	\$ (28,755)	\$ 2,545,689
	=====	=====	=====	=====

The additions include equipment of \$54,560, ambulances of \$273,062, buildings of \$531,304, and accumulated depreciation of \$234,500 received through the consolidation of Ambulance Service District No. 2.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

5. Accumulated Vacation Entitlements

Employees accrue ten (10) vacation days per year after completing one year of service. After 10 years of service, vacation days are accumulated at the rate of fifteen (15) days per year. Employees may accumulate no more than 20 days of vacation except that some employees, whose service began before these policies were implemented, are permitted to retain their previously accumulated totals.

There are no sick leave provisions. There are provisions for cash settlement of unused vacation. The total amount of accumulated vacation accrued at October 31, 1998 and 1997 was \$72,521 and \$83,500, respectively.

6. Due From Other Governments

The Cameron Parish Ambulance Service District No. 2 owed the Hospital Service District \$785,782 at October 31, 1997 for the payment of payroll and related benefits as well as operating expenses of the Ambulance District. There is no balance at October 31, 1998 as the Ambulance District is now combined with the Hospital Service District.

7. Hospital Insurance

The Hospital has contracted with the Louisiana Hospital Association Employee Benefit Trust to provide comprehensive health care services in return for monthly premiums. The Association will cover the Hospital employees for medical coverage up to \$7,500. In addition, the Hospital has obtained excess stop-loss insurance from Congress Life Insurance (passed through Hospital Services of Louisiana, Inc.) This excess insurance will reimburse directly to the Hospital the amount of claims paid over \$7,500.

The Hospital views the stop-loss insurance premiums as operating expenses, which are normal, recurring business transactions incurred to provide protection from excessive loss. In turn, they view stop-loss insurance recoveries as a reduction of the health care cost expense.

8. Capital Lease Agreements

The South Cameron Memorial Hospital has entered into four separate lease agreements, which are all properly classified as capital leases and distinguished as such in the Hospital's asset and liabilities sections of its balance sheet.

SOUTH CAMERON MEMORIAL HOSPITAL
 NOTES TO THE FINANCIAL STATEMENTS
 OCTOBER 31, 1998 and 1997

8. Capital Lease Agreements (continued)

Relevant data for each lease is presented below:

<u>Lessor</u>	<u>Leased Asset</u>	<u>Asset Cost</u>	<u>Accumulated Depreciation As of 10/31/98</u>	<u>Terms of Lease</u>
Bankers' Leasing Assoc.	Lab Equip.	\$31,900	\$ 8,725	\$642.00 - 5 Yrs. monthly until 2/2001 at 8.25%
First United Leasing	Heart Monitor	\$38,401	\$16,414	\$1,016.45 - 3 Yrs. monthly until 4/97 at 7.05% with 10% purchase option
HTI-Link Division	Telemed. Equipment	\$303,603	\$195,435	\$11,616 - 23 Mths until 5/97 at 8.75%
Rockford Industries Inc.	EKG Units	\$12,900	\$ 216	\$483.24 - 3 Yrs. monthly until 9/2001 at 21% with \$1 buyout purchase option

The following is a schedule by years of future minimum lease payments required, together with their present value as of October 31, 1998:

LEASED ASSETS	
Year Ending October 31,	
1999	\$13,503
2000	13,503
2001	7,881

Total Minimum Lease Payments	\$34,887
	=====

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

8. Capital Lease Agreements (continued)

Less Amounts Representing Interest	6,619 -----
Present Value of Minimum Lease Payments	\$28,718 =====

9. Operating Leases

The Hospital Service District entered into a five year lease for the Calcasieu Oaks facilities on November 1, 1995. The monthly rental was \$26,000 until December 31, 1995 and \$31,000 from then after. Upon completion of the initial five-year term, the lease shall automatically renew for an additional five-year term unless cancelled by either party at least 90 days prior to the expiration of the current term.

The Hospital Service District has several operating leases for a term of one year or less for various equipment items.

Rent expenditures for the years ended October 31, 1998 and 1997 were \$158,793 and \$103,859, respectively.

10. Malpractice/General Claims

Two worker's compensation claims have been asserted against the Hospital as of October 31, 1998. They both involve employees of the Hospital. Management believes that these claims would be settled within limits of insurance coverage.

No malpractice claims have been asserted against the Hospital.

SOUTH CAMERON MEMORIAL HOSPITAL
 NOTES TO THE FINANCIAL STATEMENTS
 OCTOBER 31, 1998 and 1997

11. Other Required Disclosures

Segment Information

Segment information that is not presented on the face of the component unit financial statements are as follows for October 31,

	<u>1998</u>	<u>1997</u>
a.) Net Working Capital	\$ 3,277,201	\$ 2,576,636
b.) Property, Plant, and Equipment Additions (See note 4)	959,650	100,963
c.) Interest Costs (100% expense)	101,399	38,320

Interfund Activity

Ambulance Service District No. 1 had a liability of \$50,000 and \$37,500 in administrative fees which were due to the Hospital Service District at October 31, 1998 and 1997. This amount will be paid in the next fiscal year.

12. Post Employment Benefits

The Hospital does not provide post-employment health care benefits for retired employees.

13. General Long-Term Debt

A summary of general long-term debt is as follows:

Description	Balance at 11/01/97	Retired	Balance at 10/31/98
Revenue Bonds: \$750,000 originally issued with interest at 6.5%, due 02-01-01	\$ 390,586	\$ 111,541	\$ 279,045
	=====	=====	=====

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

13. General Long-Term Debt (continued)

Following is a summary of bond principal maturities and interest requirements:

Year Ending October 31,	Revenue Bonds
1999	\$ 122,508
2000	133,645
2001	43,951

Total	300,104
Less Interest	21,059

Net	\$ 279,045
	=====

14. Notes Payable

The Hospital entered into an agreement dated July 15, 1998 with Transamerica Insurance to finance their insurance premium. The total amount of the premium is \$246,044.05. The Hospital made a cash down payment of \$25,376.43 leaving \$220,667.62 as the amount financed. The balance is due in nine installments, beginning August 15, 1998, at 8.32%. The monthly payment is \$25,376.43 and the balance at October 31, 1998 was \$148,631.06.

The Hospital also entered into an agreement with TriSpan Health Services for the repayment of medicare overpayments from the medicare cost reports for the years ended October 31, 1997 and 1996. The overpayment amounts from the 1997 and 1996 cost reports were \$643,395 and \$197,967, respectively. As of October 31, 1998, the combined balance was \$805,893, with payments due within the next year.

When the Hospital and the Ambulance District No. 2 combined, the Hospital acquired the note payable for the construction of the ambulance substations. The original amount of the loan, dated June 29, 1994, was \$500,000 with interest at 5.25%, due January 10, 2004. The balance of the loan as of October 31, 1998 was \$319,603.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 AND 1997

14. Notes Payable (continued)

Long-term maturities are as follows:

Year ended October 31, 2000	\$	49,144
Year ended October 31, 2001		51,723
Year ended October 31, 2002		54,439
Year ended October 31, 2003		57,297
Year ended October 31, 2004		60,308

Total Long-Term Debt		272,911
Current maturities		1,001,217

Total Notes Payable	\$	1,274,128
		=====

15. Related Party Transactions

The Hospital has engaged the board members for pharmacy and physician services during the year ended October 31, 1998 and 1997. Payments to the board members during the year were as follows:

	<u>1998</u>	<u>1997</u>
Dr. Richard Sanders	\$ 622,329	\$588,190
Mike Delaunay	\$ -0-	\$ 7,000

The Hospital is of the opinion that the size of the community necessitates the engagement of some of the professional staff of the Board. Additionally, the related party transactions were consummated on terms equivalent to those that prevail in arm's length transactions.

The Hospital entered into a management agreement commencing and effective on November 16, 1996 and remaining in effect until November 15, 1999, with Lake Charles Hospital Management, Inc., a corporation owned wholly by the CEO of the Hospital. The management expense is \$65,000 per month. The total expense was \$779,040 and \$745,623, in 1998 and 1997, respectively.

Effective June 1, 1998, the management agreement was amended for an additional provision of service. Lake Charles Hospital Management began providing outpatient satellite rehab services including physical, occupational, recreational, and speech pathology at rates which both parties believe are equivalent to those that prevail in arm's length transactions. The expense for this portion of the contract was an additional \$1,113,026 in 1998.

SOUTH CAMERON MEMORIAL HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 1998 and 1997

16. Prior Period Adjustments

Two prior period adjustments were made during the fiscal year ended October 31, 1998, involving amounts that were reimbursements from grants received in 1997 and incorrectly recorded as revenues, totalling \$36,244.

An additional adjustment was made in the year ended October 31, 1998, to reflect medicare program reimbursements based on a cost settlement after an audit review of the cost reports for the years ended October 31, 1997 and 1996. The amount of the reimbursements were \$595,644 and \$197,967, respectively.

Several prior period adjustments were made during the fiscal year ended October 31, 1997. The first adjustment of \$4,522 was to correct the balance of the lease of the physician's office. A second adjustment was made for \$18,433 due to a check from October 31, 1996, which was voided during 1997 and recorded as an expense in the 1996 financial statements.

An adjustment was also made for \$11,298 to write off a payable from October 31, 1996, during 1997.

A fourth prior period adjustment was made to reverse an adjustment from October 31, 1996 to accrue an additional amount due to a vendor. The amount of this adjustment was \$58,263.

An adjustment of \$76,533 was made to correct the amount recorded as receivable from Ambulance Service District No. 2 for payment of expenses at October 31, 1996.

Finally, one of the Hospital's vendors recorded an audit adjustment of \$197,500 on their records for the Hospital account. This adjustment was made after the October 31, 1996 audit was issued.

17. Year 2000 Compliance

The Hospital is currently in the remediation stage of implementing a year 2000 compliant system. The Hospital, with the assistance of its computer servicer, is dealing with the technical issues of making the existing systems and processes year 2000 compliant, and the required system changes are being made.

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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 Trustees
Lower Cameron Hospital Service District
South Cameron Memorial Hospital
Cameron, Louisiana

We have audited the component unit financial statements of South Cameron Memorial Hospital as of and for the years ended October 31, 1998 and 1997, and have issued our report thereon dated April 27, 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 South Cameron Memorial Hospital's 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 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 South Cameron Memorial 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 certain matters involving the 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 South Cameron Memorial Hospital's ability to record, process

summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 1998-001 and 1998-002.

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 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. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

W. Mullen and M. Mullen, CPAs

April 27, 1999

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Nursing and Physician Services:

Nursing salaries - RN	\$	390,371
Nursing salaries - LPN		117,681
Nursing salaries - nurses aids		216,314
Nursing salaries - ER		133,991
Nursing payroll taxes - RN		29,155
Nursing payroll taxes - LPN		8,841
Nursing payroll taxes - nurses aids		16,075
Nursing payroll taxes - ER		10,286
Nursing service - supplies		32,581
Nursing service - subcontract		2,550
Nursing service - equipment repair		427
Nursing service - education and travel		3,458
Emergency room - supplies		2,088
Emergency room - equipment repair		70
Emergency room - payroll taxes		2,951
Emergency room - leasing		720
Physicians - professional services		6,173
Physicians - emergency room		557,856

Total Nursing and Physician Services	\$	1,531,588
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Other Professional Services:

Medical Records:

Salaries	\$	55,765
Supplies		3,602
Leasing		1,956
Payroll taxes		4,197

Total Medical Records		65,520
-----------------------	--	--------

Radiology:

Salaries	104,178
Supplies	31,964
Professional services	63,080
Payroll taxes	7,737
Equipment repairs	500
Special procedures	16,332
Contracts	12,928

Total Radiology	236,659
-----------------	---------

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Physical Therapy:

Salaries	\$	8,899
Supplies		1,672
Payroll taxes		660
Rental and utilities		11,239
Telephone		494
Contracts		126,254

Total Physical Therapy		149,218

Laboratory:

Salaries		134,089
Supplies		114,780
Professional services		40,643
Contracts		24,775
Payroll taxes		10,110
Outside test services		41,465
Blood		2,862
Equipment repair		1,441

Total Laboratory		370,165

Pharmacy:

Pharmaceuticals		205,804
Professional services		24,000

Total Pharmacy		229,804

Ambulance:

Salaries		1,002,251
Payroll taxes		72,463
Equipment repairs		17,614
Education		2,713
Fuel		18,680
Contracts		4,318
Supplies		37,943
Telephone		17,542
Rent and utilities		33,173
Legal and professional		620
Special procedures		3,190

Total Ambulance		1,210,507

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Respiratory Therapy:		
Oxygen	\$	26,023
Contracts		433,316
Supplies		4,489

Total Respiratory Therapy		463,828
Swing Bed:		
Salaries		60,352
Payroll taxes		4,549
Supplies		2,345
Rentals		22,400
Subcontract		2,214

Total Swing Bed		91,860
Telemedicine Services:		
Salaries		3,262
Payroll taxes		1,686
Supplies		217
Consultant		2,000
Education and travel		1,698
Telephone		295

Total Telemedicine Services		9,154
Fitness Center:		
Salaries		17,899
Payroll taxes		1,348
Supplies		7
Contracts		296
Equipment repair		871
Telephone		409

Total Fitness Center		20,830

Total Other Professional Services	\$	2,847,545
		=====
<u>General Services:</u>		
Dietary:	\$	136,162
Salaries		9,797
Payroll taxes		25,430
Supplies		

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Dietary: (continued)

Professional services	\$	6,650
Contracts		4,431
Food		113,958

Total Dietary		296,463

Household and Property:

Housekeeping - salaries		108,711
Housekeeping - payroll taxes		8,055
Housekeeping - contracts		14,394
Housekeeping - supplies		29,046
Laundry and linen		23,936
Maintenance - salaries		133,623
Maintenance - payroll taxes		9,916
Maintenance - contracts		15,500
Maintenance - supplies		16,799
Maintenance - equipment repairs		4,069

Total Household and Property		364,139

Central Supply:

Supplies		32,591
Leasing		1,366

Total Central Supply		33,957

Material Management:

Salaries		17,300
Payroll taxes		1,245
Supplies		1,748

Total Material Management		20,293

Total General Services

\$ 714,852
=====

Administrative and Fiscal Services:

Administrative - salaries	\$	156,840
Administrative - supplies		37
Administrative - education and travel		8,987
Administrative - contracts		2,633
Administrative - auto		10,200
Advertising and public relations		1,681
Bank card charges		989

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Administrative and Fiscal Services: (continued)

	\$	111,561
Business office - salaries		18,818
Business office - supplies		8,114
Business office - payroll taxes		5,366
Business office - contracts		28,166
Business office - leasing		6,006
Collection fees		13,769
Dues and subscriptions		226
Equipment repair		640,443
Insurance		105,125
Legal and professional		4,904
Licenses		1,028
Maintenance and repairs		246
Miscellaneous		20,046
Postage and messenger		11,136
Rental expense and utility		69,285
Telephone		12,713
Travel		2,440
Television rental		1,441
Unemployment		63,445
Utilities		7,650
Vending machine		193,038
Medcap discount fees		-----
Total Admininstrative and and Fiscal Services	\$	1,506,627 =====

Home Health:

	\$	12,907
Salaries - clerical		115,542
Salaries - RN		10,503
Salaries - LPN		23,813
Salaries - nurses aids		946
Payroll taxes - clerical		8,559
Payroll taxes - RN		833
Payroll taxes - LPN		1,800
Payroll taxes - nurses aids		4,719
Supplies		20,450
Mileage		1,492
Rent and utilities		6,763
Leasing		166
Postage		1,637
Telephone		664
Equipment repair		-----
Total Home Health	\$	210,802 =====

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

Calcasieu Oaks Facility:

Salaries - RN	\$	385,211
Salaries - LPN		5,546
Salaries - clerical		18,111
Salaries - MHT		201,249
Salaries - social workers		35,334
Salaries - housekeeping		19,334
Payroll taxes - RN		28,991
Payroll taxes - LPN		425
Payroll taxes - clerical		1,350
Payroll taxes - MHT		15,368
Payroll taxes - social workers		2,659
Payroll taxes - housekeeping		1,493
Advertising and public relations		1,414
Contracts - various		1,925,189
Consultant		20,548
Dietary foods		18,592
Education and travel		221
Equipment and building repairs		1,601
Laundry and linens		2,496
Leasing		5,936
Licenses		200
Postage		384
Professional services		640,655
Rent and utilities		453,192
Special procedures		35,014
Supplies		49,868
Supplies - pharmacy		201,460
Telephone		20,750
 Total Calcasieu Oaks Facility	 \$	 4,092,594 =====

Holly Hill House Facility:

Salaries	\$	4,749
Payroll taxes		377
Supplies		266
Contracts		26,400
Telephone		617
 Total Holly Hill House Facility	 \$	 32,409 =====

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES

For the Year Ended October 31, 1998

<u>Rural Health Clinics:</u>	
Salaries - physicians	\$ 101,484
Salaries - LPN	42,916
Salaries - clerical	14,078
Salaries - nurse practitioners	71,701
Salaries - GL	28,063
Payroll taxes - physician	7,668
Payroll taxes - LPN	3,101
Payroll taxes - clerical	1,027
Payroll taxes - nurse practitioners	9,300
Payroll taxes - GL	2,128
Supplies	8,899
Supplies - pharmacy	4,079
Rent and utilities	39,057
Licenses	400
Telephone	9,631
Contracts	5,666
Education and travel	605
Professional services	10,000
Repairs and maintenance	1,244
Postage	548

Total Rural Health Clinics	\$ 357,395 =====

SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended October 31, 1998

We have audited the financial statements of South Cameron Memorial Hospital as of and for the year ended October 31, 1998, and have issued our report thereon dated April 27, 1999. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of October 31, 1998 resulted in an unqualified opinion.

Section I Summary of Auditor's Report

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Reportable Conditions Yes No

Compliance

Compliance Material to Financial Statements Yes No

b. Federal Awards

Not Applicable

Section II Financial Statement Findings

Finding 1998-1

Criteria – Management should maintain controls over all accounts payable.

Condition – Several vendor accounts were not included in the Hospital's year end accounts payable balance.

Cause – Not all vendor accounts are handled through the Hospital's accounts payable system. They are handled "off-line" with no control account.

Effect – The Hospital is not able to monitor the aging of accounts payable to determine cash flow needs.

Recommendation – All vendor accounts should be handled through the Hospital's computerized accounts payable system.

**SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended October 31, 1998**

Finding 1998-2

Criteria – Management should maintain controls for processing invoices to determine that quantities, prices, and terms appear accurate.

Condition – Vendor invoices were found that had not been marked paid. The Hospital did not pay directly from the invoices and was not aware of the balances that remain due.

Cause – For a few accounts, the accounts payable clerk relies on the CEO to inform her when to make a payment and how much to pay. While she maintains the memo from the CEO requesting a payment, the actual invoices paid are not cancelled as paid and no control is maintained showing the balance that remains due.

Effect – The Hospital did not have a readily available control for these accounts to indicate the balance owed.

Recommendation – When an amount is paid, all of the affected invoices should be attached to the memo requesting payment and a tape should be attached to the front of the memo indicating the amounts from each invoice that were paid, the total amount paid, and the balance that remains payable.

Finding 1998-3

Criteria – The Hospital should safeguard and control all assets.

Condition – The Hospital entered into a contract for physical therapy services and the billing of those services. While the hospital receives status reports on the patients billed, they do not have a control on the individual amounts billed and collected.

Cause – The Hospital relies on the contracted company to maintain controls on the accounts.

Effect – The Hospital does not have a control ledger indicating the balance of the related receivable.

Recommendation – The Hospital should request detailed records from the management company and compare these records to amounts billed through status reports and amounts collected through records from the bank statements.

**SOUTH CAMERON MEMORIAL HOSPITAL
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended October 31, 1997**

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL ON THE FINANCIAL STATEMENTS	
There were no prior year findings.	
SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
There were no prior year findings.	
SECTION III MANAGEMENT LETTER	
Payment of accounts without a related invoice.	Partially resolved see 1998-2
Problems regarding inventory procedures.	Resolved

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MANAGEMENT LETTER

We have audited the financial statements of South Cameron Memorial Hospital as of and for the years ended October 31, 1998 and 1997, and have issued our report thereon dated April 27, 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.

As a part of our examination, we have issued our report on the financial statements, dated April 27, 1999, and our report on internal control and compliance with laws, regulations, and contracts, dated April 27, 1999.

During the course of our examination, we became aware of the following matters which represent immaterial deviations of compliance or suggestions for improved internal control.

Suggestions 1998-4

Criteria – No public servant, or member of such servant's immediate family, or legal entity in which he has a controlling interest shall bid on or enter into any contract, subcontract, or other transaction that is under supervision or jurisdiction of the agency of such public servant.

Condition – The Hospital contracts management and other professional services with a company wholly owned by the Chief Executive Officer of the Hospital.

Cause – The Hospital considers that this condition is not a violation because the parish of Cameron has a population of less than 10,000 and because the CEO is employed by the management company and not directly by the Hospital.

Effect – The exclusion to LA Rev Statute 42:1113 is for "any legislator and any appointed member of any board or commission and any member of a governing authority." As it is not clear that the position of Chief Executive Officer is excluded, since he is not elected or appointed, this may appear to be a violation.

Recommendation – The Hospital should request an opinion from the Ethics board for their specific circumstances.

Members

American Institute of Certified Public Accountants
Louisiana Society of Certified Public Accountants

We recommend management address the foregoing issues as an improvement to operations and the administration of public programs. We are available to further explain the suggestions or help implement the recommendations.

McMillen and Associates
April 27, 1999

**SOUTH CAMERON MEMORIAL HOSPITAL
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended October 31, 1998**

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENT	
1998-1 All vendor accounts should be handled through the Hospital's computerized accounts payable system.	The accounts payable clerk will begin entering all payables into the computerized accounts payable system.
1998-2 Invoices should be marked paid.	The accounts payable clerk will begin immediately to cancel all paid invoices.
1998-3 The Hospital should request detail records from the management company and compare them to the Hospital's records.	The accountant for the Hospital will request such records immediately.
SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
N/A	
SECTION III MANAGEMENT LETTER	
1998-4 The Hospital should request an opinion from the Ethics board for their specific circumstances.	The Hospital's CEO will send a letter to the Ethics board immediately.