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LOWER CAMERON HOSPITAL SERVICE DISTRICT  
FINANCIAL REPORT  
DECEMBER 31, 2005

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

Release Date 1/31/07

## CONTENTS

	Page
<b>INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS</b>	1
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance sheets	2
<i>Statements of revenues, expenses and changes in net assets</i>	3
Statements of cash flows	4
Notes to financial statements	5-14
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of other operating revenues	16
Schedules of board fees	17
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u></b>	18 and 19
Schedule of findings and questioned costs	20 and 21
Schedule of prior year findings	22



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CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Commissioners  
Lower Cameron Hospital Service District  
Creole, Louisiana

We have audited the accompanying basic financial statements of the Lower Cameron Hospital Service District, a component unit of the Cameron Parish Police Jury, as of December 31, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lower Cameron Hospital Service District as of December 31, 2005 and 2004, and the results of its operations, and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The Lower Cameron Hospital Service District has not presented management's discussion and analysis that accounting principles in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purposes of forming opinions on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the Lower Cameron Hospital Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Broussard, Poché, Lewis & Breau, L.L.P.*

Lafayette, Louisiana  
December 20, 2006

LOWER CAMERON HOSPITAL SERVICE DISTRICT

BALANCE SHEETS  
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,334,467	\$ 265,963
Property tax receivable	267,151	234,600
Rent receivable	15,000	-
Other receivables	<u>1,003,927</u>	<u>-</u>
Total current assets	\$ 2,620,545	\$ 500,563
<b>CAPITAL ASSETS</b>		
Property, plant and equipment, at cost, less accumulated depreciation of \$1,551 and \$3,365,898 for 2005 and 2004, respectively	<u>576,373</u>	<u>975,093</u>
Total assets	<u>\$ 3,196,918</u>	<u>\$ 1,475,656</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,150,988	\$ 442,060
Third-party payor settlements	<u>9,678,100</u>	<u>9,705,881</u>
Total current liabilities	<u>\$ 10,829,088</u>	<u>\$ 10,147,941</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 576,373	\$ 975,093
Unrestricted (deficit)	<u>(8,208,543)</u>	<u>(9,647,378)</u>
Total net assets (deficit)	<u>\$ (7,632,170)</u>	<u>\$ (8,672,285)</u>
Total liabilities and net assets	<u>\$ 3,196,918</u>	<u>\$ 1,475,656</u>

See Notes to Financial Statements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Rental income	\$ 160,000	\$ 155,000
Other operating revenues	<u>14,454</u>	<u>30,470</u>
Total operating revenues	<u>\$ 174,454</u>	<u>\$ 185,470</u>
Operating expenses:		
Depreciation and amortization	\$ 65,789	\$ 88,286
Emergency room maintenance	178,395	182,684
Swing bed maintenance	40,000	35,000
Legal and accounting	19,341	108,896
Contract labor	3,502	4,966
Provision for bad debts	-	20,965
Other operating expenses	<u>1,188</u>	<u>1,972</u>
Total operating expenses	<u>\$ 308,215</u>	<u>\$ 442,769</u>
Operating loss	<u>\$ (133,761)</u>	<u>\$ (257,299)</u>
Non-operating revenues (expenses):		
Ad valorem taxes	\$ 267,871	\$ 239,131
Intermediary cost report adjustments	-	6,464
Special needs shelter expense	(367,313)	-
Investment income	14,472	1,303
Noncapital grants	392,313	-
Gain on involuntary conversion of capital assets	<u>848,295</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>\$ 1,155,638</u>	<u>\$ 246,898</u>
Excess (deficiency) of revenues over expenses before capital grants	\$ 1,021,877	\$ (10,401)
Capital grants	<u>18,238</u>	<u>-</u>
Increase (decrease) in net assets	\$ 1,040,115	\$ (10,401)
Net assets (deficit) beginning of the year	<u>(8,672,285)</u>	<u>(8,661,884)</u>
Net assets (deficit) end of year	<u>\$ (7,632,170)</u>	<u>\$ (8,672,285)</u>

See Notes to Financial Statements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from rental activities	\$ 145,000	\$ 140,000
Payments to suppliers and contractors	(287,774)	(402,020)
Other receipts and payments, net	<u>14,454</u>	<u>12,559</u>
Net cash used by operating activities	<u>\$ (128,320)</u>	<u>\$ (249,461)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Ad valorem taxes	\$ 235,320	\$ 213,324
Noncapital grants	62,624	-
Special needs shelter payments	<u>(62,624)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>\$ 235,320</u>	<u>\$ 213,324</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING:</b>		
Purchase of capital assets	\$ (152,968)	\$ (12,776)
Insurance proceeds from involuntary conversion of capital assets	<u>1,100,000</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>\$ 947,032</u>	<u>\$ (12,776)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	<u>\$ 14,472</u>	<u>\$ 1,303</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,068,504	\$ (47,610)
Cash and cash equivalents at beginning of year	<u>265,963</u>	<u>313,573</u>
Cash and cash equivalents at end of year	<u>\$ 1,334,467</u>	<u>\$ 265,963</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (133,761)	\$ (257,299)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	65,789	88,286
Provision for bad debts	-	20,965
(Increase) decrease in assets:		
Rent and other receivables	(15,000)	(32,910)
Increase (decrease) in liabilities:		
Third party-payor settlements	(27,781)	(7,680)
Accounts payable	<u>(17,567)</u>	<u>(60,823)</u>
Net cash used in operating activities	<u>\$ (128,320)</u>	<u>\$ (249,461)</u>

See Notes to Financial Statements.

## LOWER CAMERON HOSPITAL SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Description of Organization and Summary of Significant Accounting Policies

The Lower Cameron Hospital Service District ("Service District") was established by the Cameron Parish Police Jury on July 15, 1959, by virtue of the authority of La. R.S. 46:1051 et seq. The purpose of the Service District is to provide health services to lower Cameron Parish. Construction of the hospital building was financed through a bond issue, Hill Burton Funding, and local contributions. The Service District's Board of Commissioners is appointed by the Cameron Parish Policy Jury.

As the governing authority of the Parish, for reporting purposes, the Cameron Parish Police Jury is the financial reporting entity for the Service District. Accordingly, the Service District was determined to be a component unit of the Cameron Parish Police Jury based on GASB Statement No. 14, *The Financial Reporting Entity*. The accompanying financial statements present only the Service District.

#### Operation and management:

On February 18, 2000, the Service District entered into a management agreement with Camelot Specialty Hospital of Cameron, L.L.C. ("Camelot"), which assumed management of all hospital operations and the operational funding to the Service District to maintain operational cash flow from February 18, 2000, until the Service District could obtain bankruptcy court, governmental, and voter approval of the lease agreement and assignment agreement for the Service District's Hospital facilities. In accordance with this agreement, Camelot assumed post bankruptcy liabilities, other than those stated in the lease agreement as the responsibility of the Service District.

On September 28, 2000, the Service District entered into a 10 year lease agreement with Camelot to assume all hospital operations of the Service District. The lease agreement provides for the following:

The Service District rents the hospital building and equipment to Camelot. Camelot in turn pays monthly rental payments to the Service District of \$15,000 per month for the first three years of the agreement and then \$20,000 per month starting in September 2004.

The lease is intended to be a triple net lease, with the understanding that Camelot is fully responsible for all rent, all applicable insurance premiums, and all repairs and maintenance of the premises.

The Service District shall be solely responsible for payments of all debts, judgments, and other liabilities prior to November 18, 1999, including all cost report settlements for all cost reporting periods ending prior to the lease commencement date, including any settlements on terminating cost reports. Camelot assumes all debts, judgments, and other liabilities of the Service District accruing on and after November 18, 1999, except for any obligations pertaining to bankruptcy, financial statement audits, and cost report preparation.

The Service District must also pay each year \$175,000 from ad valorem tax collections, to Camelot to defray the costs associated with the maintenance of the emergency room and maintenance costs associated with emergency room services. The Service District may also, at its sole discretion, pay Camelot an additional \$40,000 from ad valorem tax collections per year to help defray the cost of maintenance projects and renovations.

## LOWER CAMERON HOSPITAL SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Description of Organization and Summary of Significant Accounting Policies (continued)

On February 2, 2004, the Service District entered into a lease assignment and amendment agreement with Camelot and Pacer Health Management Corporation ("Pacer"), whereby Camelot's rights and obligations under the lease were transferred to Pacer. The lease agreement provides for the following:

The lease is for a ten year period with an option to extend the term for two additional periods of five years each. The Service District rents the hospital building and equipment to Pacer. Pacer in turn pays monthly rental payments to the Service District of \$20,000 per month for the initial lease term. If Pacer exercises its option to extend the lease, the monthly rental amount is adjusted by the cost of living index.

The lease is intended to be a triple net lease, with the understanding that Pacer is fully responsible for all rent, all applicable insurance premiums, and all repairs and maintenance of the premises.

The Service District must pay each year, the ad valorem taxes collected (less any taxes paid under protest), to Pacer to defray the costs associated with the maintenance of the emergency room and improvements to the Hospital facilities. The Service District must also pay, each month, \$5,000 from the rental revenue received from Pacer, to help defray the costs associated with the Hospital's Swing Bed Unit.

During the primary term or extended term (the "Option Period") of the lease, the Service District grants to Pacer, an option to purchase the premises and the moveable property (the "Option"), for the fair market value (as defined below) of the premises and the moveable property at the time the Option is exercised. The fair market value of the premises and the moveable property shall be determined by either the mutual consent of Pacer or the Service District, or if the parties cannot agree, by three appraisers selected one by Pacer, one by the Service District, and one by the two appraisers chosen by Pacer and the Service District. The average of the three appraisals done by these three appraisers shall be considered the fair market value. The Service District and Pacer shall split the cost of the three appraisals.

The sale of the premises and the moveable property shall be subject to all legal requirements existing at the time the Option is exercised regarding the sale of immovable and moveable property owned by a hospital service district which may, but not necessarily include the approval of the governing authority of Cameron Parish, which at this time is the Cameron Parish Police Jury, the approval of the voters residing within the Lower Cameron Hospital Service District, in accordance with La. R.S. 33:3431, et seq. and the approval of the Louisiana Attorney General, in accordance with La. R.S. 40:2115.11, et seq. and the implementing regulations published in the June 20, 1998 *Louisiana Register*. The sale of the premises and the moveable property shall also be subject to either (i) Bankruptcy Court approval in the previous bankruptcy proceedings of the Service District filed in the United States Bankruptcy Court for the Western District of Louisiana, Lake Charles Division, case number 99BK-21290 (the "Bankruptcy Proceedings") or (ii) an agreement with a majority of the creditors of the Service District subject to the Plan of Adjustment approved in the Bankruptcy Proceedings.

The act of sale for the premises (or such other written document as may be required under Louisiana law in order to perfect the District's rights) shall state that Pacer and any subsequent transferee of the Premises and the Moveable Property shall not close the Hospital or cease operating the Premises as an acute care hospital with an emergency room or as a critical access hospital without the prior written consent of the Service District. In the event that Pacer or any subsequent transferee elects either (i) to close the Hospital or (ii) to cease operating the premises as an acute care hospital without the Service District's prior written consent, then the Service District shall have an option to purchase the premises and the moveable property back from Pacer or any subsequent transferee of the premises and the moveable property for \$1.



## LOWER CAMERON HOSPITAL SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Description of Organization and Summary of Significant Accounting Policies (continued)

The more significant accounting policies of the Service District are described below:

The accompanying basic financial statements of the Hospital District have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 established standards for external financial reporting for all state and local governmental entities, which included a balance sheet or statement of net assets, a statement of revenues, expenditures and changes in net assets, and a statement of cash flows utilizing the direct method of presentation. The statement requires the classification of net assets into four components-invested in capital assets, net of related debt; restricted expendable net assets; restricted nonexpendable net assets; and unrestricted net assets. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*. These and other changes are reflected in the accompanying basic financial statements (including the notes to the financial statements).

#### Method of Accounting:

The Service District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual method. The Service District's accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the *Louisiana Governmental Audit Guide*, and the *Audit and Accounting Guide - Health Care Organizations*, published by the American Institute of Certified Public Accountants, and standards established by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### Accounting Standards:

Pursuant to the GASB (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Service District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

#### Use of estimates:

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

#### Cash and cash equivalents:

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Service District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies (continued)

Allowance for uncollectible accounts:

The Service District uses the allowance method of recognizing the cost for uncollectible amounts. This method provides an estimate of the loss that is applicable to current year revenue, and any adjustment in previous estimates of prior year losses.

Capital assets:

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable assets. The following useful lives are generally used:

Building	20 – 50 years
Equipment	3 – 15 years
Land improvements	10 years

Operating revenues and expenses:

The Service District's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from rental activities, the District's principal activity. Non-exchange revenues, including taxes and investment income are reported as non-operating revenues. Operating expenses are all expenses incurred to provide for the operations of the rental activities.

Grants and donations:

Revenues from grants and donations (including capital contributions of assets) are recognized when all eligibility requirements, including time requirements are met. Grants and donations may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expense.

Income taxes:

The Service District is a political subdivision and exempt from taxes.

Environmental Matters:

The Service District is subject to laws and regulations relating to the protection of the environment. The Service District's policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. At December 31, 2005, management is not aware of any liability resulting from environmental matters.

Restricted resources:

When the Service District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Bank Deposits and Investments

The Service District's investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in time deposits, money market investment accounts or certificates of deposit with financial institutions insured by FDIC; direct obligations of the United States Government and its agencies; commercial paper issued by United States Corporations with a rating of A-1 (Moody's) and P-1 (Standard and Poor's) or higher; and government backed mutual trust funds. At December 31, 2005 and 2004, the Service District's funds consisted solely of demand deposits and certificates of deposits. These deposits are stated at cost, which approximates market.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Service District's deposits may not be returned to it. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Service District's policy requires that all bank balances be insured or collateralized by the financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage (FDIC). These securities must be pledged in the Service District's name. At December 31, 2005 and 2004, \$200,000 and \$100,000 respectively of the Service District's deposits were secured from risk by FDIC coverage and \$1,273,438 and \$168,833 respectively, were secured by the financial institution's pledged securities. Accordingly, the Service District had no custodial credit risk related to its deposits at December 31, 2005 and 2004.

Note 3. Other Receivables

A summary of other receivables is as follows:

	2005	2004
FEMA grant - Special needs shelter	\$ 304,689	\$ -
FEMA grant - Capital (Clinic equipment)	18,238	-
Louisiana Public Facilities Authority grant	25,000	-
Insurance proceeds - Property & equipment	656,000	-
 Total other receivables	 \$ 1,003,927	 \$ -

Note 4. Ad Valorem Taxes

The Service District is authorized to levy a tax of 3.66 mills on all property in the District for operating and maintaining the District's hospital facilities for a period of ten years, starting in 2000 and ending in the year 2009, or such shorter period during which the taxpayers and members of the public continue to receive the benefit of the continued operation of the emergency room services and facilities, and other hospital services and facilities of the District. The District levied 3.55 mills for 2005 and 2004.

The Service District's property tax is levied by the parish on the taxable real property in the district in late October of each year. Bills are sent out in November of each year at which time the Service District records the tax revenue, and become a lien in the following March. The collection period for the Service District's property taxes is from December (at which time they become delinquent) to the succeeding May.

Pursuant to Act No. 1140 of the 2001 Regular Legislative Session, protested ad valorem tax receipts are no longer segregated and held pending the outcome of the protest lawsuit. Instead, these payments are remitted to the Service District. If the taxpayer successfully wins the protest lawsuit, the Service District is liable to pay the taxpayer the protested tax amount plus interest. At December 31, 2005 and 2004, the amount of protested ad valorem taxes collected, pending the outcome of protest lawsuits was \$104,689 and \$78,819, respectively.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2005 and 2004 were as follows:

	December 31, 2004	Additions	Retirements	December 31, 2005
Land	\$ 31,321	\$ -	\$ -	\$ 31,321
Land improvements	2,106	-	(2,106)	-
Buildings and improvements	2,182,560	16,510	(2,199,070)	-
Equipment	2,125,004	58,205	(2,136,666)	46,543
Construction in progress	-	500,060	-	500,060
Total historical cost	<u>\$ 4,340,991</u>	<u>\$ 574,775</u>	<u>\$ (4,337,842)</u>	<u>\$ 577,924</u>
Less accumulated depreciation for:				
Land improvements	\$ (2,106)	\$ -	\$ 2,106	\$ -
Buildings and improvements	(1,291,666)	(41,780)	1,333,446	-
Equipment	(2,072,126)	(24,009)	2,094,584	(1,551)
Total accumulated depreciation	<u>\$ (3,365,898)</u>	<u>\$ (65,789)</u>	<u>\$ 3,430,136</u>	<u>\$ (1,551)</u>
Capital assets, net	<u>\$ 975,093</u>	<u>\$ 508,986</u>	<u>\$ (907,706)</u>	<u>\$ 576,373</u>
	December 31, 2003	Additions	Retirements	December 31, 2004
Land	\$ 31,321	\$ -	\$ -	\$ 31,321
Land improvements	2,106	-	-	2,106
Buildings and improvements	2,182,560	-	-	2,182,560
Equipment	2,112,228	12,776	-	2,125,004
Total historical cost	<u>\$ 4,328,215</u>	<u>\$ 12,776</u>	<u>\$ -</u>	<u>\$ 4,340,991</u>
Less accumulated depreciation for:				
Land improvements	\$ (2,106)	\$ -	\$ -	\$ (2,106)
Buildings and improvements	(1,227,393)	(64,273)	-	(1,291,666)
Equipment	(2,048,113)	(24,013)	-	(2,072,126)
Total accumulated depreciation	<u>\$ (3,277,612)</u>	<u>\$ (88,286)</u>	<u>\$ -</u>	<u>\$ (3,365,898)</u>
Capital assets, net	<u>\$ 1,050,603</u>	<u>\$ (75,510)</u>	<u>\$ -</u>	<u>\$ 975,093</u>

Depreciation expense for the years ended December 31, 2005 and 2004 amount to \$65,789 and \$88,286, respectively. In 2005, the retirements to capital assets were due to the destruction caused by Hurricane Rita of which the Service District received \$1,100,000 in insurance proceeds and has recorded a receivable for an additional \$656,000 in insurance proceeds as of December 31, 2005. The construction in progress shown above is in reference to the set up of a health clinic in Grand Lake.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Third-party Payor Settlements

The Service District has intermediary receivable/payable balances on cost reports from when the Service District operated the hospital. Medicare and Medicaid would reimburse the hospital for cost reimbursable items at an interim tentative rate with final settlement determined after submission of the annual cost reports by the hospital and audits thereof by the Medicare and Medicaid fiscal intermediary. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audit. As a result of retroactive adjustments of certain prior year cost reports, the Service District recorded changes in estimates resulting in an increase in non-operating revenues of \$0 and \$6,464 in 2005 and 2004 respectively.

The following is a schedule of third-party payor settlement payable/(receivable) as of December 31, 2005:

Cost Report Year	Medicare	Medicaid	Total
1995	\$ -	\$ 2,587,393	\$ 2,587,393
1997	2,262,779	1,168	2,263,947
1998	4,334,615	93,802	4,428,417
1999	238,164	(2,671)	235,493
2000	169,846	(6,996)	162,850
Total	<u>\$ 7,005,404</u>	<u>\$ 2,672,696</u>	<u>\$ 9,678,100</u>

The following is a schedule of third-party payor settlement payable/(receivable) as of December 31, 2004:

Cost Report Year	Medicare	Medicaid	Total
1995	\$ -	\$ 2,598,860	\$ 2,598,860
1997	2,262,779	1,168	2,263,947
1998	4,334,615	93,802	4,428,417
1999	238,164	(9,750)	228,414
2000	186,539	(296)	186,243
Total	<u>\$ 7,022,097</u>	<u>\$ 2,683,784</u>	<u>\$ 9,705,881</u>

The Service District's Medicare and Medicaid cost reports have been audited by the Medicare fiscal intermediary through October 31, 1998.

Note 7. Emergency Room and Swing Bed Unit Maintenance

For the period ended December 31, 2005 and 2004, the Service District paid \$178,395 and \$182,684 from its ad valorem tax collections for the maintenance of the emergency room in accordance with the lease agreement. The Service District also paid \$40,000 and \$35,000 for the period ended December 31, 2005 and 2004, respectively, to Pacer (from the rental income received from Pacer) to help defray the costs associated with the operation of the Swing Bed Unit.

## LOWER CAMERON HOSPITAL SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 8. Bankruptcy Plan

On November 18, 1999, the Lower Cameron Hospital Service District filed for bankruptcy under Chapter 9 of the Bankruptcy code. On September 28, 2000, the Chapter 9 Bankruptcy plan was accepted by the creditors and was approved by Bankruptcy Court, the Governor, Attorney General, and State Bond Commission, as required by Louisiana Law. The provisions of this confirmed plan bind the Service District and its creditors in accordance with Section 944 of the Code. The plan also binds all creditors of the Service District to cease any existing offset or recoupment and to refrain from exercising any rights they may have to offset or recoup funds of the Service District or of any lessee of the Service District arising out of amounts owed to creditors based upon periods of time prior to September 28, 2000.

According to the bankruptcy plan, creditors with claims under \$500 and those who voluntarily reduce their claims to \$500 are to be paid first. The remaining claims are split into two groups, governmental claimants and all unsecured creditors. Net cash flows of the Service District are to be split in two and divided pro-rata among each of the two groups. Net cash flows are defined in the bankruptcy plan as all funds remaining after payment of all usual, necessary and ordinary expenses of operations of the Service District from the monthly rent and from accounts receivable owed to the Service District, but shall not include funds from tax receipts reserved for emergency room operations.

Included in total current liabilities at December 31, 2005 and 2004, is \$9,950,395 and \$10,003,046, which falls under the bankruptcy plan. In accordance with the bankruptcy plan, \$52,651 and \$20,822 were paid to creditors during the year ended December 31, 2005 and 2004, respectively.

#### Note 9. Contingencies

The Service District is the defendant in a malpractice lawsuit filed by a former patient of the geriatric psychiatric facility when the District operated the facility. The claim was presented to the medical review panel, which denied the plaintiff's claim. The plaintiff filed suit in District Court for the claim. The Service District's insurer that was defending the case is now bankrupt. Per legal counsel, the ultimate outcome of the suit cannot be presently determined and an amount of loss, if any, cannot be reasonably estimated, therefore no provision for any liability has been made in the financial statements.

#### Note 10. Settlement Agreement with Camelot and Purchase Agreement for Stock

On July 15, 2004, the Service District entered into a settlement agreement with Camelot, whereby the Service District accepted the transfer of 50,000,000 shares of stock in Pacer Health Corporation (subject to restrictions imposed by Rule 144 of the Federal Securities Act of 1933) in lieu of the \$411,191 debt owed to the Service District by Camelot under the management and lease agreement.

On September 21, 2004, the Service District entered into a purchase agreement with Rainier Gonzalez ("Buyer"), whereby Buyer would purchase the 50,000,000 shares of stock from the Service District. The purchase price to be paid by Buyer for the stock shall be \$200,000 paid in a cash lump sum unless within ten days after the sales notice, Buyer notifies the District in writing of its election to pay the Service District \$250,000 to be paid in twenty-five equal monthly installments of \$10,000 represented by a promissory note.

As of the issue date of this report, the Service District has not obtained physical possession of the Pacer Health Corporation stock and therefore has not enacted the purchase agreement with Buyer. As of the Balance Sheet date, the Service District has not recognized any recovery associated with this purchase agreement. Management will record any proceeds received from the purchase agreement with Buyer as bad debt recoveries at the time of receipt.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Noncapital and Capital Grants

The following is a recap of the noncapital and capital grants recognized by the Service District for the year ending December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Noncapital grants:		
U.S. Department of Homeland Security (FEMA Public Assistance) - Hurricane Katrina Special Needs Shelter	\$ 367,313	\$ -
Louisiana Public Facilities Authority	<u>25,000</u>	<u>-</u>
 Total noncapital grants	 <u>\$ 392,313</u>	 <u>\$ -</u>
Capital grants:		
U.S. Department of Homeland Security (FEMA Public Assistance) - Clinic equipment	\$ 18,238	\$ -

Note 12. Effects of Hurricane Rita and Subsequent Events

On September 24, 2005, Hurricane Rita made landfall in southwest Louisiana causing widespread damage to properties throughout the region. The Service District's hospital building along with furniture and equipment were completely destroyed by the hurricane. By December 31, 2005, the Service District wrote-off the cost and accumulated depreciation associated with all of its capital assets except for land due to the destruction caused by the hurricane.

In accordance with the lease agreement of the hospital, there were property and flood insurance policies in effect at the time of the hurricane. The Service District recognized \$1,756,000 of insurance proceeds on these policies of which \$1,100,000 was received by December 31, 2005 and the remaining \$656,000 received subsequent to December 31, 2005.

Subsequent to December 31, 2005, the Service District has contracted for the construction of a twenty-five (25) bed hospital with an emergency room department at the previous hospital location in Creole, Louisiana. The hospital will be constructed in two phases with the first phase scheduled to be completed in April 2007 and phase two to be completed in July 2007. The total cost of construction along with equipment is estimated to approximate \$22,230,000. The Service District has secured funding from the U.S. Department of Homeland Security (FEMA Public Assistance) in the amount of approximately \$17,885,000 with the remaining funds for the construction and equipment project to be obtained from the Louisiana Recovery Authority designation of CDBG funds within the Local Government Infrastructure Program.

In September 2006, the voters of the Service District approved the passage of a ten (10) year maintenance tax of 21 mills on all property in the Service District for the purpose of operating and maintaining the Service District's hospital facilities, and simultaneously cancel the levy and collection of the 3.66 mill maintenance tax approved in April 2000, resulting in ad valorem tax assessments of approximately \$1,200,000 per year. In December 2006, the Service District issued \$2,500,000 of Tax Anticipation Certificates with varying maturities to three years at an interest rate of 4.09%.

Subsequent to December 31, 2005, the Service District has also obtained additional operating funding grants from the Bush-Clinton Katrina Fund in the amount of \$2,000,000 for workforce development, and a \$500,000 Louisiana Community Development Block Grant (LCDBG) for working capital operations.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Financial Report Delays

The audit and financial report for the year ending December 31, 2005 must be submitted to the legislative auditor within six months of the close of the year as required by state statutes. Due to the effects and devastation caused by Hurricane Rita on the Service District's facility and operations, this financial report was not issued within the requirement by state law, however the Legislative Audit Advisory Council has granted extensions to the Service District for this filing.



**SUPPLEMENTARY INFORMATION**

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULE OF OTHER OPERATING REVENUES

Year Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
State revenue sharing	\$ 1,746	\$ 2,905
Reimbursement on legal and accounting fees	859	23,876
Miscellaneous	<u>11,849</u>	<u>3,689</u>
Total other operating revenues	<u>\$ 14,454</u>	<u>\$ 30,470</u>

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULES OF BOARD FEES  
Year Ended December 31, 2005 and 2004

Board Members:

The Service District's board members did not receive any compensation for the years ended December 31, 2005 and 2004.

A schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.



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

To the Board of Commissioners  
Lower Cameron Hospital Service District  
Creole, Louisiana

We have audited the basic financial statements of the Lower Cameron Hospital Service District, as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated December 20, 2006. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Lower Cameron Hospital Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic 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 involves matters relating to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Lower Cameron Hospital Service District's ability to initiate, record, process, 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 item 2005-1 and 2005-2.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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, of the reportable conditions described above, we consider item 2005-2 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lower Cameron Hospital Service District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and question costs as item 2005-3.

To the Board of Commissioners  
Lower Cameron Hospital Service District

We also noted certain additional matters that we reported to management of the Lower Cameron Hospital Service District in a separate letter dated December 20, 2006.

This report is intended solely for the information and use of management, others within the Service District, federal award agencies, pass-through entities, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Broussard, Poche, Lewis ; Broussard, L.L.P.*

Lafayette, Louisiana  
December 20, 2006

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2005

We have audited the basic financial statements of the Lower Cameron Hospital Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated December 20, 2006. 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. Our audit of the basic financial statements as of and for the year ended December 31, 2005, resulted in an unqualified opinion.

**Section I. Summary of Auditor's Reports**

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

Internal Control

Material Weaknesses  Yes  No Other Conditions  Yes  No

Compliance

Compliance Material to Financial Statements  Yes  No

Was a management letter issued?  Yes  No

**Section II. Financial Statement Findings**

2005-1 – Segregation of Duties

**Finding:** The Service District does not have adequate segregation of duties. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Service District may not be large enough to permit such procedures, it is important that the Service District be aware of this condition. This condition was also included in the 2004 audit as item #2004-1.

**Recommendation:** Keeping in mind the limited number of personnel to which duties can be assigned, the Service District should continue to monitor assignment of duties to ensure as much segregation of duties and responsibility as possible, and the board should review financial information on a timely basis.

**Response:** The Service District is aware of and has evaluated this problem and concluded that it would not be cost beneficial or possible with the limited resources available to create a segregated accounting environment. However, the Service District will continue to monitor this situation and the board will review financial information on a timely basis.

2005-2 – Disaster Recovery Plan

**Finding:** The Service District does not have an adequate disaster recovery plan to protect financial records and data. In the aftermath of Hurricane Rita, it was discovered that the Service District's financial records and accounting software backups were destroyed by the storm leaving the Service District without any financial records. The financial records had to be recovered from a software backup kept by the auditors from the previous years audit and all financial records recreated from that time on.

**Recommendation:** We recommend that the Service District develop and implement a disaster recovery plan that would encompass a rotational backup of the financial accounting software including offsite storage capability that would allow the Service District to recover financial data in case of another natural disaster.

**Response:** The Service District will develop and implement a disaster recovery plan that includes a rotational backup of the financial accounting software with offsite storage that will allow the recovery of financial data in case of another natural disaster.

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2005

2005-3 – Lack of Expense Documentation

**Finding:** In the course of our audit, the documentation of expenses that was declared and reimbursed by FEMA through the Cameron Parish Police Jury and passed thru the Service District, in an amount of \$367,313 for providing special needs shelters for Hurricane Katrina evacuees could not be obtained because these records were destroyed by Hurricane Rita. Per discussion with the Legislative Auditor's office, they stated that they had personnel that had looked over these expenditures prior to Hurricane Rita destroying the records. The Project Worksheet was sent in by the Cameron Parish Police Jury with the approval of the Louisiana Office of Homeland Security and Emergency Preparedness showing the documentation of expense was lost in Hurricane Rita, and this reimbursement was based on verbal agreements that the Parish provide these special needs shelters in the parish on behalf of the Louisiana Department of Health and Hospitals and the Office of Public Health.

**Recommendation:** We recommend that documentation of expenses be maintained.

**Response:** Due to circumstances beyond the Service District's control, the documentation of expenses for providing special needs shelters was destroyed by Hurricane Rita. The documentation supplied to FEMA was approved by the Louisiana Office of Homeland Security and Emergency Preparedness, and the Legislative Auditor's office had reviewed documents prior to Hurricane Rita landfall. All other expense documentation is being kept for future reimbursements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended December 31, 2005

**Section I. Internal Control and Compliance Material to the Financial Statements**

2004-1 – Segregation of Duties

**Finding:** The Service District does not have adequate segregation of duties. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Service District may not be large enough to permit such procedures, it is important that the Service District be aware of this condition.

**Recommendation:** Keeping in mind the limited number of personnel to which duties can be assigned, the Service District should continue to monitor assignment of duties to ensure as much segregation of duties and responsibility as possible.

**Response:** UNRESOLVED. The Service District is aware of and has evaluated this issue and concluded that it would not be cost beneficial or possible with the limited resources available to create a segregated accounting environment. The Service District will continue to monitor this issue with segregation of duties, and continues to review all financial information on a timely basis. This finding is also included in the audit report for the year ended December 31, 2005, and described in 2005-1.

**Section II. Internal Control and Compliance Material to Federal Awards**

Not applicable.

**Section III. Management Letter**

There were no matters reported in a separate management letter for the year ended December 31, 2004.



# LOWER CAMERON HOSPITAL SERVICE DISTRICT

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## MANAGEMENT'S CORRECTIVE ACTION PLAN

Year Ended December 31, 2005

### Section I. Internal Control and Compliance Material to the Financial Statements

#### 2005-1 – Segregation of Duties

Response: The Service District is aware of and has evaluated this problem and concluded that it would not be cost beneficial or possible with the limited resources available to create a segregated accounting environment. However, the Service District will continue to monitor this situation and the board will review financial information on a timely basis.

Responsible Party: Lower Cameron Hospital Service District's Board of Commissioners

#### 2005-2 – Disaster Recovery Plan

Response: The Service District will develop and implement a disaster recovery plan that includes a rotational backup of the financial accounting software with offsite storage that will allow the recovery of financial data in case of another natural disaster.

Responsible Party: Lower Cameron Hospital Service District's Board of Commissioners

#### 2005-3 – Lack of Expense Documentation

Response: Due to circumstances beyond the Service District's control, the documentation of expenses for providing special needs shelters were destroyed by Hurricane Rita. The documentation supplied to FEMA was approved by the Louisiana Office of Homeland Security and Emergency Preparedness, and the Legislative Auditor's office had reviewed documents prior to Hurricane Rita landfall. All other expense documentation is being kept for future reimbursements.

Responsible Party: Lower Cameron Hospital Service District's Board of Commissioners

### Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

### Section III. Management Letter

#### Accounts Receivable Credit Balances

Response: The Service District will transfer operating cash into a separate interest bearing cash account the balance of these accounts receivable credit balances as soon as the operating cash is available. The Service District will get with legal counsel in order to comply with R.S. 40:2811 in regards to steps necessary with regards to the abandoned property and its disbursement.

Responsible Party: Lower Cameron Hospital Service District's Board of Commissioners

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT



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To the Board of Commissioners  
Lower Cameron Hospital Service District  
Creole, Louisiana

We have audited the basic financial statements of the Lower Cameron Hospital Service District as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of our examination, we have issued our report on the basic financial statements, dated December 20, 2006, and our report on internal control and compliance with laws, regulations, and contracts, dated December 20, 2006.

During the course of our examination, we became aware of the following matter which represents suggestions for improved internal controls and compliance.

Accounts Receivable Credit Balances

We noted during our audit that the Service District has accounts receivable credit balances from when the Service District operated the hospital. The Service District was researching these balances and refunding based on time and resources available. However, in the aftermath of Hurricane Rita, all of the backup records for these balances have been destroyed making any research impossible including addresses. R.S. 40:2811 provides steps that must be taken with respect to abandoned property to a hospital and how this abandoned property be used. There is also no separate cash account with an amount equal to these credit balances in it.

We recommend that the Service District transfer into separate interest bearing cash account an amount equal to these accounts receivable credit balances. This amount should come from the operating cash before bankruptcy payables. We also recommend that the Service District follow R.S. 40:2811 in order to disburse these funds in a reasonable period of time.

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

*Broussard, Poché, Lewis & Breaux, L.L.P.*

Lafayette, Louisiana  
December 20, 2006

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

\*A Professional Accounting Corporation