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**LOWER CAMERON HOSPITAL SERVICE DISTRICT  
FINANCIAL REPORT  
DECEMBER 31, 2006**

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 7-25-07

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**INDEPENDENT AUDITORS' REPORT**

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, 2006 and 2005, 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 opinions.

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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007, 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.

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

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Lower Cameron Hospital Service District taken as a whole. The supplementary information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Lower Cameron Hospital Service District. The supplementary information listed in the table of contents and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Broussard, Poche, Lewis : Breaux, L.L.P.*

Lafayette, Louisiana  
June 20, 2007

LOWER CAMERON HOSPITAL SERVICE DISTRICT

BALANCE SHEETS  
December 31, 2006 and 2005

	2006	2005
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,858,269	\$ 1,334,467
Property tax receivable, net of allowance of \$29,107 and \$3,323 for 2006 and 2005, respectively	515,878	267,151
Due from other governmental agencies	944,450	-
Rent receivable	15,000	15,000
Other receivables	3,881,751	1,003,927
	<u>                    </u>	<u>                    </u>
Total current assets	\$ 9,215,348	\$ 2,620,545
<b>CAPITAL ASSETS</b>		
Property, plant and equipment, at cost, less accumulated depreciation of \$50,215 and \$1,551 for 2006 and 2005, respectively	5,547,272	576,373
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 14,762,620</u>	<u>\$ 3,196,918</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,355,620	\$ 1,150,988
Accrued interest payable	8,805	-
Third-party payor settlements	9,675,065	9,678,100
Tax anticipation certificates payable	830,000	-
	<u>                    </u>	<u>                    </u>
Total current liabilities	\$ 14,869,490	\$ 10,829,088
<b>LONG-TERM LIABILITIES</b>		
Tax anticipation certificates payable	1,670,000	-
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>\$ 16,539,490</u>	<u>\$ 10,829,088</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 5,547,272	\$ 576,373
Unrestricted (deficit)	(7,324,142)	(8,208,543)
	<u>                    </u>	<u>                    </u>
Total net assets (deficit)	<u>\$ (1,776,870)</u>	<u>\$ (7,632,170)</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 14,762,620</u>	<u>\$ 3,196,918</u>

See Notes to Financial Statements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Years Ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Rental income	\$ -	\$ 160,000
Other operating revenues	31,806	14,454
<b>Total operating revenues</b>	<b>\$ 31,806</b>	<b>\$ 174,454</b>
Operating expenses:		
Depreciation and amortization	\$ 48,664	\$ 65,789
Emergency room and rural health clinic maintenance	510,980	178,395
Swing bed maintenance	-	40,000
Legal and accounting	141,419	19,341
Contract labor	3,600	3,502
Grant administration expense	33,786	-
Interest expense	8,805	-
Other operating expenses	55,874	1,188
<b>Total operating expenses</b>	<b>\$ 803,128</b>	<b>\$ 308,215</b>
<b>Operating loss</b>	<b>\$ (771,322)</b>	<b>\$ (133,761)</b>
Non-operating revenues (expenses):		
Ad valorem taxes	\$ 1,461,381	\$ 267,871
SSBG Subcontractor expense	(417,589)	-
Special needs shelter reimbursement	-	(367,313)
Investment income	58,409	14,472
Noncapital grants	498,043	392,313
Gain on involuntary conversion of capital assets	-	848,295
<b>Total non-operating revenues (expenses)</b>	<b>\$ 1,600,244</b>	<b>\$ 1,155,638</b>
<b>Excess of revenues over expenses before capital grants</b>	<b>\$ 828,922</b>	<b>\$ 1,021,877</b>
Capital grants	5,026,378	18,238
<b>Increase in net assets</b>	<b>\$ 5,855,300</b>	<b>\$ 1,040,115</b>
Net assets (deficit) beginning of the year	(7,632,170)	(8,672,285)
<b>Net assets (deficit) end of year</b>	<b>\$ (1,776,870)</b>	<b>\$ (7,632,170)</b>

See Notes to Financial Statements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from rental activities	\$ -	\$ 145,000
Payments to suppliers and contractors	(649,845)	(287,774)
Other receipts and payments, net	31,806	14,454
<b>Net cash used by operating activities</b>	<b>\$ (618,039)</b>	<b>\$ (128,320)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Ad valorem taxes	\$ 268,204	\$ 235,320
Noncapital grants	697,090	62,624
Special needs shelter payments	(304,689)	(62,624)
SSBG grant subcontractor expense	(307,401)	-
Proceeds from tax anticipation certificates	2,500,000	-
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 2,853,204</b>	<b>\$ 235,320</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING:</b>		
Purchase of capital assets	\$ (1,719,279)	\$ (152,968)
Capital grants	1,293,507	-
Insurance proceeds from involuntary conversion of capital assets	656,000	1,100,000
<b>Net cash provided by capital and related financing activities</b>	<b>\$ 230,228</b>	<b>\$ 947,032</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	\$ 58,409	\$ 14,472
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 2,523,802</b>	<b>\$ 1,068,504</b>
Cash and cash equivalents at beginning of year	1,334,467	265,963
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,858,269</b>	<b>\$ 1,334,467</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (771,322)	\$ (133,761)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	48,664	65,789
(Increase) decrease in assets:		
Rent and other receivables	-	(15,000)
Increase (decrease) in liabilities:		
Third party-payor settlements	(3,035)	(27,781)
Interest payable	8,805	
Accounts payable	98,849	(17,567)
<b>Net cash used in operating activities</b>	<b>\$ (618,039)</b>	<b>\$ (128,320)</b>

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, 2006, 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, 2006 and 2005, 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, 2006 \$200,000 of the Service District's deposits were secured from risk by FDIC coverage, \$931,971 was secured by the financial institution's pledged securities, and \$2,464,764 was unsecured due to the fact that an inadequate amount of securities were pledged by the District's fiscal agent. At December 31, 2005, \$200,000 of the Service District's deposits were secured from risk by FDIC coverage and \$1,273,438 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.

Note 3. Other Receivables

A summary of other receivables is as follows:

	<u>2006</u>	<u>2005</u>
FEMA grant - Hospital Construction	\$ 3,751,109	\$ -
FEMA grant - Special needs shelter	-	304,689
FEMA grant - Capital (Clinic equipment)	-	18,238
Social Services Block grant	130,642	-
Louisiana Public Facilities Authority grant	-	25,000
Insurance proceeds - Property & equipment	-	<u>656,000</u>
Total other receivables	<u>\$ 3,881,751</u>	<u>\$ 1,003,927</u>

Note 4. Ad Valorem Taxes

The Service District was 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. An election in September of 2006 increased the authorized millage to 21.00 mills for a period of ten years, starting in 2006. The District levied 21.00 and 3.55 mills for 2006 and 2005, respectively.

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

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4. Ad Valorem Taxes (continued)

taxpayer the protested tax amount plus interest. At December 31, 2006 and 2005, the amount of protested ad valorem taxes collected, pending the outcome of protest lawsuits was \$133,617 and \$104,689, respectively.

Note 5. Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2006 and 2005 were as follows:

	December 31,			December 31,		
	2005	Additions	Retirements	2006		
Land	\$ 31,321	\$ -	\$ -	\$ 31,321		
Land improvements	-	-	-	-		
Buildings and improvements	-	534,564	-	534,564		
Equipment	46,543	2,500	-	49,043		
Construction in progress	500,060	5,017,063	(534,564)	4,982,559		
Total historical cost	<u>\$ 577,924</u>	<u>\$ 5,554,127</u>	<u>\$ (534,564)</u>	<u>\$ 5,597,487</u>		
Less accumulated depreciation for:						
Land improvements	\$ -	\$ -	\$ -	\$ -		
Buildings and improvements	-	(38,939)	-	(38,939)		
Equipment	(1,551)	(9,725)	-	(11,276)		
Total accumulated depreciation	<u>\$ (1,551)</u>	<u>\$ (48,664)</u>	<u>\$ -</u>	<u>\$ (50,215)</u>		
Capital assets, net	<u>\$ 576,373</u>	<u>\$ 5,505,463</u>	<u>\$ (534,564)</u>	<u>\$ 5,547,272</u>		
	December 31,			December 31,		
	2004	Additions	Retirements	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>		

Depreciation expense for the years ended December 31, 2006 and 2005 amount to \$48,664 and \$65,789, 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 as of December 31, 2005, is shown above and is in reference to the set up of a health clinic in Grand Lake. As of December 31, 2006, construction in progress consists of new hospital construction in Creole.

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

The following is a schedule of third-party payor settlement payable/(receivable) as of December 31, 2006:

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	166,811	(6,996)	159,815
Total	<u>\$ 7,002,369</u>	<u>\$ 2,672,696</u>	<u>\$ 9,675,065</u>

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

Note 7. Emergency Room, Rural Health Clinic and Swing Bed Unit Maintenance

For the period ended December 31, 2006 and 2005, the Service District paid \$500,000 and \$178,395 from its ad valorem tax collections and insurance proceeds for the maintenance of the emergency room and rural health clinic in accordance with the lease agreement and board resolutions. The Service District also paid \$-0- and \$40,000 for the period ended December 31, 2006 and 2005, 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. Long Term Debt

A schedule of changes in the Hospital's non-current liabilities for 2006 and 2005 are as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Amount due within one year
Tax anticipation certificates	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 830,000

During 2006, the District issued \$2,500,000 of tax anticipation certificates. The tax anticipation certificates are to be used to generate monies for up front expenses such as initial payments for operational expenses, construction estimates, engineering fees, FEMA ineligible costs and expenses not covered in a timely manner by the Louisiana Recovery Authority. The certificates have an interest rate of 4.09%, are payable in principal and interest solely from the irrevocable pledge and dedication of revenues generated by the special advalorem maintenance tax of 21 mills on all taxable property in Cameron Parish, due semiannually until 2009.

Schedule principal and interest repayments on tax anticipation certificates are as follows:

Years Ending June 30,	Long-Term debt	
	Principal	Interest
2007	\$ 830,000	\$ 93,740
2008	830,000	59,980
2009	840,000	25,846
Total	<u>\$ 2,500,000</u>	<u>\$ 179,566</u>

Note 9. 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, 2006 and 2005, is \$9,947,360 and \$9,950,395, which falls under the bankruptcy plan. In accordance with the bankruptcy plan, \$3,035 and \$52,651 were paid to creditors during the year ended December 31, 2006 and 2005, respectively.



LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. 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 11. 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.

Note 12. 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Noncapital grants:		
Department of Health and Hospitals - Social Services Block Grant	\$ 438,043	\$ -
Foundation for Midsouth	20,000	-
Louisiana Rural Health Services	40,000	-
U.S. Department of Homeland Security (FEMA Public Assistance) - Hurricane Katrina Special Needs Shelter	-	367,313
Louisiana Public Facilities Authority	-	<u>25,000</u>
<b>Total noncapital grants</b>	<b><u>\$ 498,043</u></b>	<b><u>\$ 392,313</u></b>
Capital grants:		
New Hospital Construction	\$ 5,011,660	\$ -
U.S. Department of Homeland Security (FEMA Public Assistance) - Clinic equipment	<u>14,718</u>	<u>18,238</u>
<b>Total capital grants</b>	<b><u>\$ 5,026,378</u></b>	<b><u>\$ 18,238</u></b>

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. 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 was received in 2006.

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 construction is scheduled to be completed in July 2007. The total cost of construction along with equipment is estimated to approximate \$23,988,000. The Service District has secured funding from the U.S. Department of Homeland Security (FEMA Public Assistance) in the amount of approximately \$20,970,000 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.

Subsequent to December 31, 2006, the Service District has 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.

Also subsequent to December 31, 2006, the Service District has entered into an Amended and Restated Cooperative Endeavor Lease with Pacer Health Management Corporation for the hospital and rural health clinic buildings and equipment for \$10,000 per month. The Service District will also provide Pacer Health Management Corporation with financial support to defray losses in operational shortfalls from the Creole operations of \$3,500,000 in 2007 and \$1,200,000 or such lesser amount as may be generated by advalorem tax revenues collected in years 2008 and thereafter.

**SUPPLEMENTARY INFORMATION**

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
SCHEDULE OF OTHER OPERATING REVENUES  
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
State revenue sharing	\$ 1,019	\$ 1,746
Reimbursement on legal and accounting fees	-	859
Miscellaneous	30,787	11,849
	<u>31,806</u>	<u>14,454</u>
Total other operating revenues	<u>\$ 31,806</u>	<u>\$ 14,454</u>

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULES OF BOARD FEES  
Year Ended December 31, 2006 and 2005

Board Members:

The Service District's board members did not receive any compensation for the years ended December 31, 2006 and 2005.

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## **BROUSSARD, POCHÉ, LEWIS & BREAUX, L.L.P.**

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Geraldine J. Wimberley, CPA\* 1995  
Lawrence A. Cramer, CPA\* 1999  
Ralph Friend, CPA\* 2002  
Donald W. Kelley, CPA\* 2005

### **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, 2006 and 2005, and have issued our report thereon dated June 20, 2007. 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 Lower Cameron Hospital Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lower Cameron Hospital Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lower Cameron Hospital Service District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lower Cameron Hospital Service District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lower Cameron Hospital Service District's financial statements that is more than inconsequential will not be prevented or detected by Lower Cameron Hospital Service District's internal control. We consider the deficiency described at #2006-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lower Cameron Hospital Service District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Cameron Hospital Service District's 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 instances 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 questioned costs as item #2006-2.

Lower Cameron Hospital Service District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lower Cameron Hospital Service District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Service District, federal awarding 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 & Breaux, L.L.P.*

Lafayette, Louisiana  
June 20, 2007





**BROUSSARD, POCHÉ, LEWIS & BREAU, L.L.P.**  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Lower Cameron Hospital Service District  
Creole, Louisiana

We have audited the compliance of the Lower Cameron Hospital Service District's, Creole, Louisiana, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The Lower Cameron Hospital Service District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Lower Cameron Hospital Service District's management. Our responsibility is to express an opinion on Lower Cameron Hospital Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lower Cameron Hospital Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lower Cameron Hospital Service District's compliance with those requirements.

In our opinion, the Lower Cameron Hospital Service District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

**Internal Control Over Compliance**

The management of the Lower Cameron Hospital Service District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lower Cameron Hospital Service District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Lafayette, Louisiana  
June 20, 2007

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2006

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services; Louisiana Department of Health and Hospitals – Office of the Secretary – Bureau of Primary Care and Rural Health: Social Services Block Grant	93.667		\$ <u>438,043</u>
U.S. Department of Homeland Security: Governor's Office of Homeland Security & Emergency Preparedness – Public Assistance Grants	97.036		\$ <u>5,026,378</u>
			\$ <u>5,464,421</u>

See Notes to Schedule of Expenditures of Federal Awards.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2006

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lower Cameron Hospital Service District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2006

We have audited the basic financial statements of the Lower Cameron Hospital Service District as of and for the year ended December 31, 2006, and have issued our report thereon dated June 20, 2007. 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 financial statements as of and for the year ended December 31, 2006, 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 Significant deficiencies identified that are not considered to be material weaknesses  Yes  No

Compliance

Noncompliance Material to Financial Statements  Yes  No

Was a management letter issued?  Yes  No

b. Federal Awards

Internal Control

Material Weaknesses  Yes  No Significant deficiencies identified that are not considered to be material weaknesses  Yes  No

Type of Opinion on Compliance  Unqualified  Qualified  
For Major Programs  Disclaimer  Adverse

Are there findings required to be reported in accordance with Circular A-133, Section 510 (a)?  Yes  No

c. Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.667	Social Services Block Grant
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133?  Yes  No

LOWER CAMERON HOSPITAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2006

**Section II. Financial Statement Findings**

2006-1 – 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 2005 audit as item #2005-1.

**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.

2006-2 – Securities Pledged

**Finding:** During the course of the audit, it was discovered that collateral pledged by the Hospital Service District's Fiscal Agent, did not follow R.S. 39:1225. R.S. 39:1225 provides that the depositing authority maintain "...security.... At all times... equal to one hundred percent (100%) of the amount on deposit..." At December 31, 2006, the Fiscal Agent's pledged securities were inadequate by approximately \$2,400,000.

**Recommendation:** The Hospital Service District should periodically ensure that adequate collateral is pledged by the Fiscal Agent on deposited monies.

**Response** The Hospital Service District's cash balances increased by \$2,500,000 in December 2006 due to proceeds from the issuance of the tax anticipation certificates. A new account opened with the District's Fiscal Agent was not properly identified as public funds; due to this the need for additional collateral went unnoticed by both the District and the financial institution until January 2007 when adequate collateral was pledged. The District will review the pledged securities reports at the end of each month, to ensure that the Fiscal Agent adequately collateralized amounts held for deposit.

**Section III. Federal Award Findings and Questioned Costs**

No matters are reported.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended December 31, 2006

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

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:** UNRESOLVED. 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:** RESOLVED. The Service District has developed and implemented a disaster recovery plan that includes a rotational backup of the financial accounting software with offsite storage that allows for the recovery of financial data in case of another natural disaster.

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.

LOWER CAMERON HOSPITAL SERVICE DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS  
Year Ended December 31, 2006

2005-3 – Lack of Expense Documentation(cont'd)

Response: **RESOLVED.** 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

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

Not applicable.

**Section III. Management Letter**

2005-4 - Accounts Receivable Credit Balances

Finding: 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.

Recommendation 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.

Response: **PARTIALLY RESOLVED** The Service District declared the accounts receivable credit balances as abandoned property. The District intends to transfer amounts equal to the credit balances into a separate interest bearing cash account 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.



# LOWER CAMERON HOSPITAL SERVICE DISTRICT

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## MANAGEMENT'S CORRECTIVE ACTION PLAN

Year Ended December 31, 2006

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

#### 2006-1 – 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

#### 2006-2 – Securities Pledged

Response: The Hospital Service District's cash balances increased by \$2,500,000 in December 2006 due to proceeds from the issuance of the tax anticipation certificates. A new account opened with the District's Fiscal Agent was not properly identified as public funds; due to this the need for additional collateral went unnoticed by both the District and the financial institution until January 2007 when adequate collateral was pledged. The District will review the pledged securities reports at the end of each month, to ensure that the Fiscal Agent adequately collateralized amounts held for deposit.

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

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

Not items to address.

### Section III. Management Letter

#### 2005-4 - Accounts Receivable Credit Balances

Response: The Service District declared the accounts receivable credit balances as abandoned property. The District intends to transfer amounts equal to the credit balances into a separate interest bearing cash account 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