

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
Chalmette, Louisiana**

Audited Financial Statements

December 31, 2009 and 2008

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 3/30/11

Contents

Independent Auditor's Report	1 - 2
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Basic Financial Statements

Balance Sheets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
<i>Statements of Cash Flows</i>	5 - 6
Notes to Financial Statements	7 - 10

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 - 12
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Schedule of Findings and Responses	13 - 15
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Independent Auditor's Report

To the Board of Commissioners
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

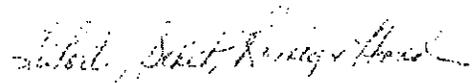
We have audited the accompanying financial statements of the business-type activities of Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), a component unit of the St. Bernard Parish Council, as of December 31, 2009 and 2008, and for the year ended December 31, 2009 and for the period from inception (November 6, 2007) through December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital Service District of the Parish of St. Bernard, State of Louisiana, as of December 31, 2009 and 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year ended December 31, 2009, and for the period from inception (November 6, 2007) through December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audits.

The Hospital has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States have determined to be necessary to supplement, although not required to be part of, the basic financial statements.



A Professional Accounting Corporation

December 16, 2010

HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 400,612	\$ 17,053
Intergovernmental receivables	993,562	68,135
Total current assets	1,394,174	85,188
Capital assets		
Construction in progress	1,621,702	-
Total assets	\$ 3,015,876	\$ 85,188
Liabilities		
Current liabilities		
Accounts payable	\$ 1,118,685	\$ 326,009
Accrued interest payable	36,000	-
Total current liabilities	1,154,685	326,009
Long-term debt and other liabilities		
Loan payable	600,000	-
Total Liabilities	1,754,685	326,009
Net assets		
Invested in capital assets, net of related debt	1,021,702	-
Unrestricted	239,489	(240,821)
Total net assets	1,261,191	(240,821)
Total liabilities and net assets	\$ 3,015,876	\$ 85,188

The accompanying notes are an integral part of these financial statements.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

	2009	2008
Operating revenues		
Other operating revenues	\$ 385,897	\$ 129,422
Total revenues	<u>385,897</u>	<u>129,422</u>
Operating expenses		
Professional services	<u>470,426</u>	370,243
Total expenses	<u>470,426</u>	370,243
Net loss from operations	<u>(84,529)</u>	<u>(240,821)</u>
Non-operating income (expense)		
Capital grants	1,621,702	-
Interest income	839	-
Interest expense	<u>(36,000)</u>	-
Total non-operating income (expenses)	<u>1,586,541</u>	-
Change in net assets	1,502,012	(240,821)
Net assets, beginning of year	<u>(240,821)</u>	-
Net assets, end of year	<u>\$ 1,261,191</u>	<u>\$ (240,821)</u>

The accompanying notes are an integral part of these financial statements.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

	2009	2008
Cash flows from operating activities		
Revenue collected	\$ (539,530)	\$ 61,287
Payments for operating expenses	322,250	(44,234)
Net cash (used in) provided by operating activities	(217,280)	17,053
Cash flows from capital and related financing activities		
Capital grant	1,621,702	
Proceeds from long-term debt	600,000	-
Acquisition of property and equipment	(1,621,702)	-
Net cash provided by capital and related financing activities	600,000	-
Cash flows from investing activities		
Cash received as interest	839	-
Net cash provided by investing activities	839	-
Net increase in cash and cash equivalents	383,559	17,053
Cash and cash equivalents, beginning of year	17,053	-
Cash and cash equivalents, end of year	\$ 400,612	\$ 17,053

Supplemental disclosure

During the year December 31, 2009, the District incurred interest expense of \$36,000 which has not been paid at December 31, 2009.

The accompanying notes are an integral part of these financial statements.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA
Statement of Cash Flows (continued)
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

	2009	2008
Reconciliation of loss from operations to net cash (used in) provided by operating activities		
Operating (loss)	\$ (84,529)	\$ (240,821)
Adjustments to reconcile operating loss to net cash flows (used in) provided by operating activities		
Changes in operating assets and liabilities:		
Increase in receivables	(925,427)	(68,135)
Increase in accounts payable	792,676	326,009
	<u>792,676</u>	<u>326,009</u>
Net cash (used in) provided by operating activities	<u>\$ (217,280)</u>	<u>\$ 17,053</u>

The accompanying notes are an integral part of these financial statements.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

Notes to the Financial Statements

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), a special district and component of St. Bernard Parish (the Parish), was formed November 6, 2007 for the purpose of constructing a non-profit community hospital in St. Bernard Parish. The Board of Commissioners is the governing authority for the District and responsible for obtaining voter approval for the levy of tax or debt issuance, but all related Louisiana State Bond Commission approvals must be obtained through the Parish.

Basis of Accounting

The financial statements of the District have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989. As a governmental entity, the District also follows certain accounting and disclosure requirements promulgated by the GASB.

Enterprise Fund Accounting

The District utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

Cash includes amounts in demand deposits and interest-bearing demand deposits. Under state law, the 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. Deposits must be made in a bank domiciled or having branch offices in the parish where the funds are collected. See Note 2.

Net Assets

Net assets represent the difference between assets and liabilities. Net asset classifications are defined as follows:

Net Assets Invested in Capital Assets, Net of Related Debt - Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

Notes to the Financial Statements

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Restricted Net Assets - Net assets are reported as restricted when there are limitations imposed on their use, either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This component of net assets consists of constraints placed on net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt," as described above.

The District first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates

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

Non-Direct Response Advertising

The District expenses advertising costs as incurred.

Grants and Contributions

From time to time, the District receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all the eligibility requirements, including time requirements, are met. Grants and contributions 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 as non-operating revenues.

Operating Revenues and Expenses

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses include all expenses incurred for the provision of health care services, other than financing costs.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

Notes to the Financial Statements

Note 2. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents (book balances):

	2009	2008
Demand deposits	<u>\$ 400,612</u>	<u>\$ 17,053</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2009, the District's has \$401,026 in deposits (collected bank balances), which is secured by \$333,943 in federal deposit insurance. The remaining \$67,083 is unsecured which is a violation of LRS 39:1225.

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon dem and.

Note 3. Capital Assets

The District is in the planning stage of constructing a hospital in St. Bernard Parish. During fiscal year ended December 31, 2009, the District incurred architecture and engineering costs of \$1,621,702 associated with the construction of hospital facilities and capitalized them as construction in progress.

Note 4. Long-Term Debt and Other Liabilities

Following is a summary of long-term debt at December 31, 2009 and 2008.

	2009	2008
Long-term debt	<u>\$ 600,000</u>	<u>\$ -</u>
Total long-term debt	<u>\$ 600,000</u>	<u>\$ -</u>

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

Notes to the Financial Statements

Note 4. Long-Term Debt and Other Liabilities (Continued)

During the fiscal year ended December 31, 2009, the District entered into a cooperative endeavor agreement with the St. Bernard Parish Government (the Parish), whereas the Parish designated \$600,000 from its issue of Sales Tax Bonds, Series 2004, to be loaned to the District to pay for capital improvement projects. Interest shall accrue on the loan at the rate of 6% per annum. Interest Expense for fiscal year ended December 31, 2009 was \$36,000. The District shall repay the Parish the entire unpaid balance of the loan on or before January, 2019.

Note 5. Commitments

On March 16, 2009, the District entered into an agreement with Gresham, Smith and Partners for architectural services which will cost an estimated total of \$2,898,002 between April 2009 and May 2011. The project in development is an estimated 40 bed, 93,000 square foot replacement hospital located in Saint Bernard Parish, Louisiana.

On June 13, 2008, the District entered into an agreement to engage the services of Hammes Company Healthcare West, LLC to provide support in the administration of the development of approximately twenty acres for a new community hospital and medical office building in St. Bernard Parish, Louisiana. This contract was subsequently terminated and a new agreement was made effective as of April 1, 2009. Per the new agreement, the Project Manager's total fee for the duration of the project will be no less than \$957,000.

Note 6. Compensation paid to Board of Commissioners

There was no compensation paid to board members for the period from inception (November 6, 2007) through December 31, 2008 nor for the year ended December 31, 2009.



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Commissioners
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

We have audited the financial statements of the business-type activities of Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of December 31, 2009 and 2008, and for the year ended December 31, 2009, and for the period from inception (November 6, 2007) through December 31, 2008 and have issued our report thereon dated December 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

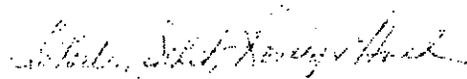
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2009 – 01, 2009 – 02, and 2009 - 03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the 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 is required to be reported under *Government Auditing Standards* and which is described as items 2009 – 04 and 2009 – 05 in the accompanying schedule of findings.

This report is intended for the information of the Board of Commissioners, Management of Hospital Service District of the Parish of St. Bernard, State of Louisiana, and the Legislative Auditor of the State of Louisiana, 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 of the State of Louisiana as a public document.



A Professional Accounting Corporation

December 16, 2010

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

**Schedule of Findings and Responses
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

Section I – Internal Control and Compliance Material to the Financial Statements

2009 – 01 Financial Statement Preparation

Criteria: Internal controls over financial reporting are necessary in order for management, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition: As is common in small organizations, management has chosen to engage the auditor to propose certain year-end adjusting journal entries and to prepare the District's annual financial statements. This condition is intentional by management based upon the District's lack of financial complexity, along with the cost prohibitive nature of acquiring the ability to prepare financial statements in accordance with generally accepted accounting principles. Consistent with this decision, internal controls over the preparation of year-end adjusting entries and annual financial statements, complete with notes, in accordance with generally accepted accounting principles, have not been fully implemented. Under generally accepted auditing standards (GAAS), this condition represents a material weakness in internal control over financial reporting. GAAS does not provide exceptions to reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive or otherwise impractical.

Effect: Management, in the normal course of performing their assigned functions, cannot prevent or detect misstatements on a timely basis thus resulting in numerous year-end adjusting journal entries.

Recommendation: We recommend the District obtain the necessary understanding and ability to prepare the financial statements and related footnotes.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

**Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

2009 – 02 General Ledger Reconciliation

- Criteria:* Control procedures over general ledger account reconciliations (accounts payable, accounts receivable, expenditures) are required in order to reduce the likelihood that a material misstatement will not be prevented or detected and corrected in a timely basis.
- Condition:* During our audit, we noted the District has no procedures for the timely reconciliation of general ledger accounts. As such, the general ledger did not completely reflect the accounting transactions of the District for the year.
- Effect:* Management, in the normal course of performing their assigned functions, cannot prevent or detect misstatements on a timely basis thus resulting in numerous year-end adjusting journal entries.
- Recommendation:* We recommend the District implement policies and procedures for the timely reconciliation of general ledger accounts and capture all transactions in a timely manner.

2009 – 03 Inadequate Segregation of Duties

- Criteria:* A good system of internal control provides for a proper segregation of the accounting functions. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud.
- Condition:* During our audit, we noted the District relies on its Secretary to write checks via machine and the checks are automatically signed with a stamp plate. No review is made after this process to reduce the risk of error or fraud.
- Effect:* Management, in the normal course of performing their assigned functions cannot prevent or detect misstatements on a timely basis.
- Recommendation:* We recommend that someone other than the Secretary, possibly even a board member, control the signature of checks and that this individual receive and review the monthly bank statements prior to their custody being transferred to the Secretary.

**HOSPITAL SERVICE DISTRICT OF THE PARISH OF ST. BERNARD
STATE OF LOUISIANA**

**Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2009 and For the Period from Inception
(November 6, 2007) through December 31, 2008**

2009 – 04 Timely Submission of Audit

Criteria: Louisiana Revised Statutes 24:513 and the *Louisiana Governmental Audit Guide* require the annual audit to be completed and submitted to the Louisiana Legislative Auditor within six months subsequent to the close of the entity's fiscal year end.

Condition: The Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) required filings were well after the due date as described above.

Cause and Effect: The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.

Recommendation: None

2009 – 05 Inadequate Collateralization of Bank Deposits

Criteria: Louisiana Revised Statutes (LRS) 39:1225 require funds deposited in local financial institutions exceeding FDIC insured maximums, currently \$250,000, to be collateralized 100% by an equal amount of securities pledged by the financial institution.

Condition: As of December 31, 2009, the Hospital Service District of the Parish of St. Bernard, State of Louisiana's bank failed to provide adequate collateralization for bank balances in excess of FDIC coverage. The deficiency was \$67,083

Cause and Effect: We believe the cause of this condition is an unintentional oversight by management that resulted in noncompliance with state law.

Recommendation: We recommend that the District closely monitor their bank balances and require their bank to pledge additional collateral as necessary.



St. Bernard Parish Hospital Service District

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March 22, 2011

Wayne J. Landry
Chairman

George Cavignac
Vice-Chairman

John Gray Sr.
Secretary

James DiFatta
Treasurer

Andrew Sercovich
Member

Gretchen H. Henry
Recording Secretary

Legislative Audit Advisory Committee
P.O. Box 94397
Baton Rouge, LA 70804-9397

To Whom It May Concern:

I am writing in response to the findings included in our financial statements for the year ended December 31, 2009 and for the period from inception (November 6, 2007) through December 31, 2008. Our corrective action plan is as follows:

2009-01 Financial Statement Preparation

The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with generally accepted accounting principles and has determined that it is in their best interests to have its independent auditors assist in performing these tasks. The District will carefully review the draft financial statements and notes prior to approving them and accepting responsibility for them.

2009-02 General Ledger Reconciliation

The District has employed an independent CPA firm to help ensure the timely reconciliation of general ledger accounts and capture all transactions in a timely manner.

2009-03 Inadequate Segregation of Duties

In response to this deficiency, the District has taken steps to segregate authorization, recording, and custodial functions among different members of management.

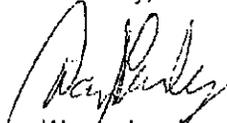
2009-04 Timely Submission of Audit

The District has reviewed annual audit report submission requirements and will make appropriate steps in the future to ensure compliance.

2009-05 Inadequate Collateralization of Bank Deposits

Subsequent to year end, the District's bank pledged collateral as necessary. The District will continue to closely monitor our bank balances and require our bank to pledge additional collateral as necessary.

Sincerely,



Wayne Landry
Chairman