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HOSPITAL SERVICE DISTRICT NO. 1 OF EAST BATON ROUGE PARISH, LOUISIANA d/b/a LANE REGIONAL MEDICAL CENTER

Zachary, Louisiana

Audited Financial Statements

June 30, 2011 and 2010

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 NOV 09 2011

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Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited the accompanying basic consolidated balance sheets of the Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of June 30, 2011 and 2010, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These basic consolidated financial statements are the responsibility of the Hospital'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, on our consideration of the Hospital's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

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 consolidated financial statements.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 13, 2011

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Consolidated Balance Sheets
June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and Cash Equivalents	$ 13,454,881	$ 11,304,639
Short-Term Investments	16,830,401	16,754,184
Investments Held by Trustee for Debt Service	3,334,160	502,786
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of $6,453,077 in 2011, and $5,005,902 in 2010, Respectively	8,885,115	10,078,243
Inventory	806,795	762,830
Other Current Assets	1,955,443	858,598
Total Current Assets	45,266,795	40,261,280
Capital Assets, Net	49,762,263	51,663,640
Deferred Outflow - Derivative Instrument	186,504	186,504
Other Assets	1,279,557	849,084
Total Assets	$ 96,495,119	$ 92,960,508
Liabilities and Net Assets		
Current Liabilities		
Current Maturities of Long-Term Debt	$ 2,831,111	$ 1,484,444
Current Maturities of Capital Lease Obligations	2,703,570	2,409,500
Accounts Payable	1,369,139	1,901,235
Accrued Salaries and Wages	1,221,420	843,737
Accrued Compensated Absences	1,006,587	1,062,759
Accrued Payroll Withholdings	186,746	152,399
Estimated Third-Party Payor Settlements	1,276,561	6,944,873
Other Current Liabilities	865,029	832,213
Total Current Liabilities	11,460,163	15,631,160
Derivative Instrument- Swap	186,504	186,504
Long-Term Debt, Less Current Maturities	13,225,140	10,937,501
Long-Term Capital Lease Obligations, Less Current Maturities	4,737,410	4,655,601
Total Liabilities	29,609,217	31,410,766
Net Assets		
Invested in Capital Assets, Net of Related Debt	26,265,032	32,176,594
Restricted for Debt Service	3,334,160	502,786
Unrestricted	37,286,710	28,870,362
Total Net Assets	66,885,902	61,549,742
Total Liabilities and Net Assets	$ 96,495,119	$ 92,960,508

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Consolidated Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of $16,586,730 in 2011, and $17,329,472 in 2010	$ 67,695,148	$ 69,204,565
Other Operating Revenue, Net of Expenses	791,086	492,149
Total Operating Revenues	68,486,234	69,696,714
Operating Expenses		
Salaries	27,418,602	29,397,384
Medical Supplies	11,418,328	11,500,696
Fringe Benefits	5,488,621	6,299,032
Depreciation and Amortization	5,423,110	6,095,146
Contracted Services	5,400,088	4,884,084
Repairs and Maintenance	1,953,897	1,724,664
Other	1,545,263	1,817,233
Non - Medical Supplies	1,387,479	1,463,589
Professional Fees	1,291,322	1,527,553
Insurance	1,028,458	1,101,523
Utilities	908,067	879,234
Total Operating Expenses	63,263,235	66,690,138
Operating Income	5,222,999	3,006,576
Non-Operating Revenue (Expenses)		
Investment Income	281,709	377,921
Interest Expense	(632,448)	(524,983)
Other Non-Operating Revenue	463,900	619,743
Net Non-Operating Revenue	113,161	472,681
Change in Net Assets	5,336,160	3,479,257
Net Assets, Beginning of Year	61,549,742	58,070,485
Net Assets, End of Year	$ 66,885,902	$ 61,549,742

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts from and on Behalf of Patients	**$ 64,011,050**	$ 73,633,023
Payments to Suppliers and Contractors	**(27,386,153)**	(25,329,079)
Payments to Employees	**(32,518,549)**	(35,441,521)
Net Cash Provided by Operating Activities	**4,106,348**	12,862,423
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues	**463,900**	619,743
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Leases	**(2,580,474)**	(2,333,119)
Principal Paid on Long-Term Debt	**(1,615,694)**	(1,449,444)
Interest Paid on Long-Term Debt	**(632,448)**	(524,983)
Proceeds from Long-Term Debt	**5,250,000**	-
Purchase of Capital Assets	**(215,508)**	(5,000,611)
Net Cash Provided by (Used in) Capital and Related Financing Activities	**205,876**	(9,308,157)
Cash Flows from Investing Activities		
Interest and Dividends on Investments	**281,709**	377,921
Purchase of Investments	**(6,229,157)**	(443,474)
Proceeds from Sale of Investments	**3,321,566**	239,625
Net Cash (Used in) Provided by Investing Activities	**(2,625,882)**	174,072
Increase in Cash and Cash Equivalents	**2,150,242**	4,348,081
Cash and Cash Equivalents, Beginning of Year	**11,304,639**	6,956,558
Cash and Cash Equivalents, End of Year	**$ 13,454,881**	$ 11,304,639

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating Income	$ 5,222,999	$ 3,006,576
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	5,423,110	6,095,146
Loss on Disposal of Property and Equipment	98,531	20,798
Provision for Bad Debts	16,586,730	17,329,472
Changes in:		
Patient Accounts Receivable	(15,393,602)	(17,951,697)
Inventory and Other Current Assets	(1,140,810)	(1,035,396)
Other Assets	(878,876)	750,341
Accounts Payable and Other Current Payables	(532,096)	(166,246)
Accrued Expenses and Payroll Withholdings	388,674	254,895
Estimated Third-Party Payor Settlements	(5,668,312)	4,558,534
Net Cash Provided by Operating Activities	$ 4,106,348	$ 12,862,423
Schedule of Non-Cash Investing, Capital and Financing Activities		
Acquisition of Capital Assets Through Capital Leases	$ 2,956,353	$ 2,515,766

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

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (the City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is exempt from Federal and State income taxes.

Lane RMC Service Corporation (the Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-Profit Corporation Law. Although the Corporation is legally separate from the Hospital, the Corporation is reported as if it were a part of the Hospital because of the presence of a shared governing body with the Hospital. In accordance with Government Accounting Standards Board (GASB) Statement No. 14, the operations of the Corporation, for the years ended June 30, 2011 and 2010, have been included in the Hospital's consolidated financial statements.

In February of 2010, the Hospital obtained fifty-one percent ownership of a joint venture with FASTLane, Inc. FASTLane, Inc. is an after hours walk-in clinic servicing the Zachary area. The facility is 3,500 square feet and features 8 exam rooms, on-site x-ray, lab and drug screening services. FASTLane is staffed by licensed physicians.

Principles of Consolidation

The accompanying basic consolidated financial statements include the accounts of entities referred to above. All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are summarized as follows:

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Hospital 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. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide,* and to the industry audit guide, *Health Care Organizations,* published by the American Institute of Certified Public Accountants.

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 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 and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments and Investment Income
Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Investments Held by Trustees
The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

Patient Accounts Receivable
Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

Inventories
Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

Prepaid Expenses and Deferred Charges
Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Capital Assets
The Hospital's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest costs allocated to buildings and construction in progress was $-0-, for the years ended June 30, 2011 and 2010.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)
When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

Compensated Absences
Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

Net Assets
Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted 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 the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets.

Operating Revenues and Expenses
The Hospital's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue
The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. See Note 10.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are recorded to gross patient service revenue and written off through contractual allowances. As such, these charges are not reported as net patient service revenue on the consolidated statement of revenues, expenses, and changes in net assets. The Hospital implemented procedures that allow the Hospital to track such charges during the year ended June 30, 2011. Charity care charges forgone for the year ended June 30, 2011 were $1,493,317. The Hospital is unable to quantify this amount for the year ended June 30, 2010.

Derivatives and Financial Instruments

The Hospital uses an interest rate swap basis agreement to manage interest costs and the risk associated with changing interest rates. While the Hospital's primary objective for the use of this instrument is to manage cash flow requirements, the change in fair value of a hedging derivative instrument will be reported in the balance sheet as deferred outflows (accumulated decrease in fair value) in accordance with the GASB No. 53, *Accounting and Financial Reporting of Derivative Instruments.*

The fair value of the interest rate basis swap agreement represent the estimated amount the Hospital would pay to terminate this agreement at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the Hospital. See Notes 4 and 5.

Note 2. Deposits and Investments

The Hospital has various deposits and investments. The amounts reflected on the accompanying consolidated balance sheets are as follows:

	2011	2010
Cash and Cash Equivalents	**$ 13,454,881**	$ 11,304,639
Short-Term Investments	**16,830,401**	16,754,184
Investments Held by Trustee for Debt Service	**3,334,160**	502,786
Total	**$ 33,619,442**	$ 28,561,609

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

Note 2. Deposits and Investments (Continued)

The Hospital's balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

Investments Held by Trustee for Debt Service as of June 30, 2011 and 2010, consisted of money market funds.

At June 30, 2011 and 2010, the Hospital's short-term investments consisted of equity interests in a commingled private trust established under the Louisiana Hospital Investment Pool (LHIP) program. The Hospital reports the value of its pro rata share of this trust at estimated fair market value as determined by the fair value of all underlying securities, held by the trusts. At June 30, 2011 and 2010, the trust was primarily invested in money market funds and U.S. Government agency obligations.

LHIP is a money market-like investment pool. The following disclosures are relevant for money market-like investment pools:

Credit risk: LHIP is unrated by the credit agencies, however the underlying U.S. Government agency securities, which comprise the substantial portion of the LHIP's assets, are rated Aaa by Moody's.

Custodial credit risk: LHIP participants' investments in the pool are evidenced by units of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement of the GASB 40 Statement.

Interest rate risk: Money market-like investment pools are excluded from this disclosure requirement, per paragraph 15 of the GASB 40 statement.

Note 3. Capital Assets

Capital asset additions, retirement, and balances for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Additions	Retirements and Transfers	Balance June 30, 2011
Capital Assets, Not Being Depreciated				
Land and Land Improvements	$ 4,309,762	$ 46,842	$ -	$ 4,356,604
Construction in Progress	469,461	771,603	(569,163)	671,901
Total Capital Assets, Not Being Depreciated	4,779,223	818,445	(569,163)	5,028,505
Capital Assets, Being Depreciated				
Buildings	36,538,043	357,260	450,816	37,346,119
Fixed Equipment	5,499,030	118,799	2,930	5,620,759
Movable and Other Equipment	30,526,465	1,836,794	(183,835)	32,179,424
Physicians' Office Building and Equipment	15,939,549	40,562	30,795	16,010,906
Total Capital Assets, Being Depreciated	88,503,087	2,353,415	300,706	91,157,208
Less: Accumulated Depreciation for:				
Land Improvements	236,123	23,355	-	259,478
Buildings	14,907,423	1,205,798	-	16,113,221
Fixed Equipment	3,940,873	347,726	-	4,288,599
Movable and Other Equipment	20,619,284	3,067,736	(167,610)	23,519,410
Physicians' Office Building and Equipment	1,914,967	330,092	(2,316)	2,242,742
Total Accumulated Depreciation	41,618,670	4,974,707	(169,926)	46,423,450
Total Capital Assets, Being Depreciated, Net	$ 51,663,640	$ (1,802,847)	$ (98,531)	$ 49,762,263

Note 3. Capital Assets (Continued)

Capital asset additions, retirement, and balances for the year ended June 30, 2010, is as follows:

	Balance June 30, 2009	Additions	Retirements and Transfers	Balance June 30, 2010
Capital Assets, Not Being Depreciated				
Land and Land Improvements	$ 4,263,994	$ 45,768	$ -	$ 4,309,762
Construction in Progress	154,839	1,715,618	(1,400,996)	469,461
Total Capital Assets, Not Being Depreciated	4,418,833	1,761,386	(1,400,996)	4,779,223
Capital Assets, Being Depreciated				
Buildings	33,549,284	2,246,504	742,255	36,538,043
Fixed Equipment	4,448,826	1,050,204	-	5,499,030
Movable and Other Equipment	28,725,136	2,419,551	(618,222)	30,526,465
Physicians' Office Building and Equipment	15,249,076	38,732	651,741	15,939,549
Total Capital Assets, Being Depreciated	81,972,322	5,754,991	775,774	88,503,087
Less: Accumulated Depreciation for:				
Land Improvements	215,181	20,942	-	236,123
Buildings	13,757,507	1,151,647	(1,731)	14,907,423
Fixed Equipment	3,719,935	220,938	-	3,940,873
Movable and Other Equipment	18,069,440	3,152,537	(602,693)	20,619,284
Physicians' Office Building and Equipment	1,719,846	195,121	-	1,914,967
Total Accumulated Depreciation	37,481,909	4,741,185	(604,424)	41,618,670
Total Capital Assets, Being Depreciated, Net	$ 48,909,246	$ 2,775,192	$ (20,798)	$ 51,663,640

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2011 and 2010, follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Bonds Payable					
Series 1996	$ 790,000	$ -	$ 790,000	$ -	$ -
Series 2007	11,631,945	-	694,444	10,937,501	694,444
Series 2010	-	5,250,000	131,250	5,118,750	2,136,667
Total Long-Term Debt	$ 12,421,945	$ 5,250,000	$ 1,615,694	$ 16,056,251	$ 2,831,111

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amount Due Within One Year
Bonds Payable					
Series 1996	$ 1,545,000	$ -	$ 755,000	$ 790,000	$ 790,000
Series 2007	12,326,389	-	694,444	11,631,945	694,444
Total Long-Term Debt	$ 13,871,389	$ -	$ 1,449,444	$ 12,421,945	$ 1,484,444

The terms and due dates of the Hospital's long-term debt at June 30, 2011 and 2010, follows:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65% of monthly LIBOR, plus 1.6%, due in monthly installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.

- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with the Seventh Supplemental and Amendatory Trust Indenture, Article I, Section 1.2, due in quarterly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2011, the effective rate was 1.49%. See additional information regarding the Hospital's interest rate swap agreement at Note 5.

- Hospital Revenue and Refunding Bonds (Series 2010), variable interest rates on the Bond established weekly in accordance with the Sixth Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, due in quarterly installments through October 1, 2030, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2011, the effective rate was 1.59%.

Note 4. Long-Term Debt (Continued)

With the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the years ended June 30, 2011 and 2010.

Scheduled principal and interest repayments on long-term debt are as follows for the year ended June 30th:

	Long-Term Debt	
	Principal	Interest
2012	$ 2,831,111	$ 216,376
2013	855,636	195,380
2014	855,636	182,457
2015	855,636	169,534
2016	855,636	156,611
2017-2021	4,278,180	589,210
2022-2026	4,278,180	266,134
Thereafter	1,246,236	31,240
Total	$ 16,056,251	$ 1,806,942

Note 5. Derivative Instruments

On November 25, 2009, the Hospital entered into a seventeen year, $5,989,584 notional amount basis swap agreement, effective December 1, 2009. The agreement converts the variable interest rate, established weekly in accordance with the Third Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, to a fixed rate of 3.82%.

The Hospital's interest expense included a charge of approximately $146,000 and $90,000, for the years ended June 30, 2011 and 2010, respectively, related to the swap agreement. At June 30, 2011 and 2010, this arrangement had a carrying value which approximates its fair value liability of approximately $186,504, which is recorded as Derivative Instrument-Swap on the Balance Sheet.

Note 5. Derivative Instruments (Continued)

At June 30, 2011 and 2010, the Hospital has the following derivative instruments outstanding:

Type	Objective	Notional Amount June 30, 2011	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	$ 5,469,000	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	$ (186,504)

Type	Objective	Notional Amount June 30, 2010	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	$ 5,816,000	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	$ (186,504)

As of June 30, 2011, debt service requirements of the Hospital's debt and net receipts/payment on associated hedging derivative instruments are presented below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative instrument will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivatives will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

	Principal	Interest	Hedging Derivative, Net	Total
2012	$ 2,831,111	$ 216,376	$ 122,365	$ 3,169,852
2013	855,636	195,380	114,275	1,165,291
2014	855,636	182,457	106,185	1,144,278
2015	855,636	169,534	98,095	1,123,265
2016	855,636	156,611	90,004	1,102,251
2017-2021	4,278,180	589,210	328,668	5,196,058
2022-2026	4,278,180	266,134	126,411	4,670,725
Thereafter	1,246,236	31,240	1,517	1,278,993
Total	$ 16,056,251	$ 1,806,942	$ 987,520	$ 18,850,713

Note 5. Derivative Instruments (Continued)

Credit Risk: The Hospital should enter into interest rate transactions only with counterparties qualified under the Hospital's Interest Rate Derivative Policy. To qualify as a counterparty under the policy, at the time of entry into a transaction, the selected swap providers should be rated at least AA-/Aa3/AA by at least one of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's and Fitch Ratings, respectively) and should have minimum capitalization of $50 million.

At June 30, 2011, the derivative instrument is held with one counterparty which has a credit rating of AA- as issued by Fitch Ratings, A+ as issued by Standard & Poor's, and Aa3 as issued by Moody's Investor Service.

Basis Risk: The Hospital is exposed to basis risk on its pay-fixed interest rate swap that are hedging the bonds, as the variable-rate payments received by the Hospital on these derivative instruments are based on a rate other than the interest rate the Hospital pays on the bonds.

Termination Risk: The Hospital or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a derivative instrument is in a liability position, the Hospital would be liable to the counterparty for a payment equal to the liability.

Note 6. Capital Leases

The Hospital is the lessee of equipment under capital leases expiring in various years through 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2011 and 2010.

Depreciation on assets under capital leases charged to expense in 2011 and 2010, is $2,384,418 and $2,416,202, respectively.

Following is a summary of property held under capital leases:

	2011	2010
Equipment	**$ 16,267,365**	$ 13,311,012
Less: Accumulated Depreciation	**(9,172,218)**	(6,787,800)
Total	**$ 7,095,147**	$ 6,523,212

Note 6. Capital Leases (Continued)

A schedule of changes in the Hospital's capital leases for 2011 and 2010 follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #3	$ 257,664	$ -	$ 144,505	$ 113,159	$ 113,159
Leased Equipment Rider #6	28,346	-	28,346	-	-
Leased Equipment Rider #7	48,690	-	48,690	-	-
Leased Equipment Rider #8	189,302	-	189,302	-	-
Leased Equipment Rider #9	902,031	-	534,997	367,034	367,034
Leased Equipment Rider #10	1,776,275	-	303,206	1,473,069	316,333
Leased Equipment Rider #11	1,541,541	-	560,991	980,550	581,333
Leased Equipment Rider #12	2,321,252	-	599,463	1,721,789	624,101
Leased Equipment Rider #13	-	2,956,353	170,974	2,785,379	701,610
Total Capital Lease Obligation	$ 7,065,101	$ 2,956,353	$2,580,474	$ 7,440,980	$ 2,703,570

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #3	$ 395,204	$ -	$ 137,540	$ 257,664	$ 144,505
Leased Equipment Rider #4	30,376	-	30,376	-	-
Leased Equipment Rider #5	101,853	-	101,853	-	-
Leased Equipment Rider #6	193,573	-	165,227	28,346	28,346
Leased Equipment Rider #7	161,681	-	112,991	48,690	48,690
Leased Equipment Rider #8	431,036	-	241,734	189,302	189,302
Leased Equipment Rider #9	1,418,927	-	516,896	902,031	534,997
Leased Equipment Rider #10	2,066,898	-	290,623	1,776,275	303,206
Leased Equipment Rider #11	2,082,905	-	541,364	1,541,541	560,991
Leased Equipment Rider #12	-	2,515,766	194,514	2,321,252	599,463
Total Capital Lease Obligation	$ 6,882,453	$ 2,515,766	$2,333,118	$ 7,065,101	$ 2,409,500

Note 6. Capital Leases (Continued)

Minimum future lease payments under capital leases as of June 30, 2011, for each of the next five years, and in the aggregate are:

	Capital Lease	
	Principal	Interest
2012	$ 2,703,570	$ 247,872
2013	2,109,825	152,032
2014	1,553,516	76,395
2015	950,903	23,666
2016	123,166	1,092
Total	$ 7,440,980	$ 501,057

Note 7. Insurance Programs

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of $500,000, plus interest and costs, including future medical costs. The Fund provides coverage on an occurrence basis for claims over $100,000, and up to $500,000. In addition, the Hospital is a participant in the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust). As a participant in the Trust, the Hospital is fully insured against professional liability and general liability claims, with specific loss and aggregate loss limits of $2,500,000, for professional liability claims and $4,500,000, for general liability claims, subject to a $25,000 per claim deductible.

The Hospital participates in the Louisiana Hospital Association Workers' Compensation Inter-local Risk Management Agency. As a participant, the Hospital is insured for workers' compensation claims, subject to a $50,000 per claim deductible.

The Hospital is also self-insured for medical and dental claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying financial statements.

Note 7. Insurance Programs (Continued)

The claims liabilities at June 30, 2011 and 2010 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	2011	2010
Claims Liability, Beginning of Year	$ 831,962	$ 658,924
Current Year Claims and Changes in Estimates	3,258,867	3,898,842
Current Year Claims Payments	(3,250,929)	(3,725,804)
Total	$ 839,900	$ 831,962

Note 8. Pension Plan

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

Plan Description

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 with ten years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.5% of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after five years of creditable service, but before attaining retirement age, are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

Note 8. Pension Plan (Continued)

Funding Policy

Participants are required to contribute three percent (3%) of their monthly earnings. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in May 2011, for the Plan year ending June 30, 2011, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2011, 2010 and 2009, were as follows:

	2011	2010	2009
Discount Rates	**7.00%**	7.00%	7.00%
Rates of Increase in Compensation Levels	**4.00%**	4.00%	3.00%
Expected Long-Term Rate of Return on Assets	**7.00%**	7.00%	7.00%

Note 8. Pension Plan (Continued)

Funding Status (Continued)

Based on the latest actuarial valuation in May 2011, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2010, 2009 and 2008:

	July 1, 2010	July 1, 2009	July 1, 2008
Actuarial Value of Plan Assets	$ 18,574,005	$ 17,744,855	$ 17,169,090
Actuarial Accrued Liability	$ 21,547,438	$ 18,608,964	$ 17,924,566
Unfunded Liability	$ (2,973,433)	$ (864,109)	$ (755,476)
Funded Ratio	86.2%	95.4%	95.80%
Annual Covered Payroll	$ 6,980,338	$ 7,190,566	$ 7,337,854
Unfunded Deficiencies as a Percentage of Annual Covered Payroll	(42.6%)	(12.0%)	(10.60%)

The Hospital had an annual required contribution of $750,841, $430,330, and $299,240, for the years ended June 30, 2011, 2010, and 2009, respectively.

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual Required Contribution	$ 750,841
Interest on Net Pension Obligation	(9,210)
Adjustment to Annual Required Contribution	14,050
Annual Pension Cost	755,681
Contributions Made	750,841
Increase in Net Pension Obligation	4,840
Net Pension (Overpayment) Obligation, Beginning of Year	(131,754)
Net Pension (Overpayment) Obligation, End of Year	$ (126,914)

Note 9. Business and Credit Concentrations

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2011 and 2010, is as follows:

	2011	2010
Medicare	**35%**	23%
Medicare Risk	**16%**	14%
Medicaid	**7%**	5%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	**34%**	51%
Self-Pay Patients	**8%**	7%
Total	**100%**	100%

Note 10. Net Patient Service Revenue and Accounts Receivable

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

Medicare
The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)

Medicare (Continued)
Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor limited the potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof, by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2007.

Medicaid
Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof, by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 30% and 4%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2011, and 31% and 5%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2010. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient revenue increased by approximately $4,094,398, for the year ended June 30, 2011, and decreased by approximately $5,678,847, for the year ended June 30, 2010, due to prior-year retroactive adjustments in excess of amounts previously estimated.

Other
The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined daily rates.

Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)

Other (Continued)

The mix of revenues by significant payor category (based on gross charges) is as follows:

	2011	2010
Medicare	**34%**	35%
Medicare Risk	**14%**	13%
Medicaid	**15%**	14%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	**31%**	32%
Self-Pay Patients	**6%**	6%
Total	**100%**	100%

Note 11. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2011 and 2010, consists of the following:

	2011	2010
Physician Revenues	**$ 1,491,912**	$ 2,693,946
Pharmacy 340B Program Revenues	**1,027,910**	-
Cafeteria Revenues	**398,618**	434,249
Other	**397,710**	369,017
Total Other Operating Revenues	**3,316,150**	3,497,212
Less: Related Expenses	**(2,525,064)**	(3,005,063)
Net Other Operating Revenue	**$ 791,086**	$ 492,149

Note 12. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

Note 12. Commitments and Contingencies (Continued)

Recovery Audit Contractors

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis no later than 2010.

The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

Derivative Instruments

The Hospital's derivative instrument includes provisions that the Hospital will post collateral to the counterparty in the event the Hospital does not maintain a minimum Debt Service Coverage Ratio of 1.35 or Days Cash on Hand falls below one hundred-ten days. As of June 30, 2011, the Hospital has achieved the aforementioned requirements.

Note 13. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. The reclassifications have no effect on previously reported net income.

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Independent Auditor's Report on Supplementary Information

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements for the years ended June 30, 2011 and 2010, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended June 30, 2011 and 2010, has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 13, 2011

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HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Schedule of Board of Commissioners and Salaries
For the Years Ended June 30, 2011 and 2010

	2011	2010
Judy Myles	$ 225	$ 175
Robert Williams, Jr.	200	225
Patricia D. Gauthier	225	250
James Carroll	200	175
Dell Guerra	250	250
Jimmy Jackson	250	250
Mark Thompson	250	250
Joan Lansing	200	200
Jeffrey Gruner, M.D.	100	225
Keith Elbourne, M.D.	75	-
Frank Ragsdale	25	-
Harold Rideau	25	-
Total	$ 2,025	$ 2,000

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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 No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited the basic consolidated financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2011, which collectively comprise the Hospital's basic consolidated financial statements and have issued our report thereon dated October 13, 2011. 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 Hospital'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 the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of the 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended for the information of the Board of Commissioners, management of Lane Regional Medical Center, 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.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 13, 2011

A. FINDINGS-FINANCIAL STATEMENT AUDIT

No Findings Noted.

Prior Year Audit Findings
For the Year Ended June 30, 2011

A. FINDINGS-FINANCIAL STATEMENT AUDIT

No Findings Noted.

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October 13, 2011

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, LA

In planning and performing our audit of the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (The Hospital) as of and for the year ended June 30, 2011 (on which we have issued our report dated October 13, 2011), in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) 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 Hospital's internal control. Accordingly, we do not express such an opinion on the effectiveness of the Hospital's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to indentify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we did not identify any deficiencies in internal control that we considered to be material weaknesses, as defined above.

We did, however, become aware of several matters that are opportunities for strengthening internal controls and operating deficiencies. These comments are included in the attachment to this letter as items 2011- M1 and 2011-M2.

We have already discussed these comments and suggestions with various Hospital personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This letter is intended solely for the information and use of the Board of Commissioners, management, 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.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

ADMINISTRATIVE, INTERNAL CONTROL AND OTHER MATTERS

2011-M1 RECONCILIATION OF PROPERTY, PLANT, AND EQUIPMENT ACCOUNTS

Observation

The hospital has implemented an annual reconciliation of detailed balances to the general ledger and assisted in the roll-forward of balances from previously reported amounts. However, we noted that discrepancies remained between the client-prepared summary of balances and account activity per the general ledger. Additionally, accounts did not properly roll-forward from prior year reported balances. Such discrepancies could lead to inaccurate reporting of fixed asset costs and depreciation expense in monthly financial statements.

Recommendation

We suggest that the general ledger fixed asset accounts should be reconciled to the detailed schedules and records on a monthly basis.

Management Response and Corrective Action

The issues between the auditor roll-forward balances and hospital is due, in part, to the mapping of GL accounts to PP&E accounts. In addition, when transfers are done among categories within the SAGE system (Fixed Asset Software System), it causes problems reporting on the auditor roll forward. Effective October 1, 2011; new accounts will be established in the PPE software system. The older (preexisting) accounts will be frozen for any new activity. This will allow us to set the PP&E accounts up to agree exactly with the auditor roll forward. Any discrepancies on the existing accounts at September 30, 2011 will be resolved in the October 31, 2011 close. In addition, reconciliations will be implemented monthly as recommended by auditors.

2011-M2 Patient Medical Records

Observation

We performed a test of controls over patient medical records using a sample of 35 patient files. The results of our testing provided the following exceptions:

- One instance where a patient file for a CIS patient did not include the appropriate patient signature on the discharge paperwork.
- *One instance where a patient file did not include the proper patient signature on admission records.*
- Two instances where no evidence of insurance verification was maintained.

Recommendation

We recommend that Management hold reoccurring training regarding admissions, discharges, and medical records.

Management Response and Corrective Action

Management has current processes in place to handle reoccurring training of clinical staff regarding admissions, discharges, and medical records. Management will continue to promote the importance of adherence to existing policies.