

**HOSPITAL SERVICE DISTRICT NO. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
D/B/A LANE MEMORIAL HOSPITAL**

Zachary, Louisiana

Audited Financial Statements

Years Ended June 30, 2004 and 2003

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 2-2-05

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**HOSPITAL SERVICE DISTRICT NO. 1 OF EAST BATON ROUGE PARISH,
LOUISIANA d/b/a LANE MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS**

Our discussion and analysis of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana's (d/b/a Lane Memorial Hospital), (i.e. the "Hospital") financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 9. Unless otherwise indicated, amounts are in thousands.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased \$355 or 1.0 percent in 2004 and decreased \$(1,311) or 3.5 percent in 2003.
- The Hospital reported an operating loss in 2004 of \$(94) and an operating loss in 2003 of \$(1,813). The operating margin increased by \$1,720 in 2004 and declined by \$(2,128) in 2003.
- Nonoperating revenues in 2004 decreased \$(53) or 10.6 percent as compared to 2003. Nonoperating revenues in 2003 increased \$164 or 48.7 percent as compared to 2002.
- The Hospital reported cash and cash equivalents at June 30, 2004 of \$2,193 and at June 30, 2003 of \$999. Cash and cash equivalents increased \$1,193 or 119.4 percent as compared to 2003. Cash and cash equivalents at June 30, 2003 decreased \$(29) or 2.8 percent as compared to 2002.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements, a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Lane Memorial Hospital, including resources held by the Hospital but restricted for a specific purpose.

THE BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital's finances begins on this page. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Asset report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current and prior year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base, changes in its active medical staff, quality of services provided to the community, changes to federal (i.e. Medicare), state (i.e. Medicaid) and commercial (i.e. managed care) reimbursement programs, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENTS OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 9. The Hospital's total net assets increased from \$36,419 in 2003 to \$36,774 in 2004, an increase of \$355. Between 2002 and 2003 total net assets decreased from \$37,730 in 2002 to \$36,419 in 2003, a decrease of \$(1,311).

Table 1: Assets, Liabilities, and Net Assets

	2004	2003	2002
Assets			
Current assets	\$ 16,959	\$ 15,634	\$ 19,753
Noncurrent certificates of deposits	6,350	6,600	2,328
Capital assets, net	25,150	26,935	27,898
Other noncurrent assets	1,411	919	657
Total assets	49,870	50,088	50,636
Liabilities			
Long-term debt	6,684	7,728	8,737
Current liabilities	6,412	5,941	4,169
Total liabilities	13,096	13,669	12,906
Net assets			
Invested in capital, net of related debt	17,422	18,199	18,177
Restricted for debt service	304	287	557
Unrestricted	19,048	17,933	18,996
Total net assets	\$ 36,774	\$ 36,419	\$ 37,730

There are two significant components to the favorable change in the Hospital's net assets between 2003 and 2004. The first component was the positive cash from operations from 2003 to 2004 which resulted in a \$1,115 increase in unrestricted net assets. The second component was, during this transition/stabilization year the Hospital acquired only assets for which there was a demonstrated high need; as such net assets invested in capital and related debt decreased by \$(777).

A significant component of the change in the Hospital's assets between 2002 and 2003 is the change in estimated third-party payor settlements. Between 2002 and 2003 estimated third-party payor settlements changed from a receivable of \$1,107 in 2002 to a payable of \$1,174 in 2003, a

change of \$2,281 or 206.2 percent. The majority of this change relates to the Hospital's transition from the periodic interim payment (PIP) payment methodology for inpatient Medicare services to a diagnostic related group DRG basis and the reconciliation required of such an averaging system as PIP to the underlying related DRG payment. During this same period of time operating revenues increased \$987 or 2.4 percent. Patient accounts receivable, net of estimated uncollectible accounts increased by \$877 or 14.5 percent in 2003 and decreased by \$(927) or (13.3) percent in 2002.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004 the Hospital's net assets increased \$355; in 2003 and 2002 the Hospital's net assets decreased \$(1,311) and increased \$652, respectively. The change in net assets in 2004 is due to various components and represents an increase of 1.0 percent compared to the total net assets at June 30, 2003. Between June 30, 2003 and June 30, 2002, net assets decreased 3.5 percent.

Table 2: Operating Results and Changes in Net Assets

	2004	2003	2002
Operating revenues			
Patient service revenue	\$ 36,223	\$ 37,761	\$ 37,210
Other operating revenues	4,152	3,954	3,517
Total operating revenues	<u>40,375</u>	<u>41,715</u>	<u>40,727</u>
Operating expenses			
Salaries and benefits	23,158	26,069	22,694
Medical supplies and drugs	4,495	4,912	5,075
Depreciation and amortization	2,670	2,520	2,417
Other operating expenses	10,146	10,027	10,226
Total operating expenses	<u>40,469</u>	<u>43,528</u>	<u>40,412</u>
Operating (loss) income	<u>(94)</u>	<u>(1,813)</u>	<u>315</u>
Nonoperating revenue (expenses)			
Investment income	320	485	558
Interest expense	(173)	(241)	(453)
Other nonoperating revenue	302	258	232
Net nonoperating revenue	<u>449</u>	<u>502</u>	<u>337</u>
Increase (decrease) in net assets	<u>355</u>	<u>(1,311)</u>	<u>652</u>
Net assets at end of year	<u>\$ 36,774</u>	<u>\$ 36,419</u>	<u>\$ 37,730</u>

Operating (Loss) Income

There are various components that contribute to the overall change in the Hospital's net assets. The first component is operating (loss) income; the second is nonoperating revenue (expenses).

Operating (loss) income is generally the difference between net patient service revenues and the expenses incurred to deliver those services to patients. The 2004 operating loss was \$(94); this is an improvement of \$1,719 or 94.8 percent from the operating loss of \$(1,813) reported in 2003. The 2003 operating loss was \$(1,813), which was a decrease of \$(2,128) or 675.6 percent from the operating income of \$315 reported in 2002. The primary components of this change in reported operating loss for 2004 and 2003 were:

- A decrease in net patient service revenues of \$(1,538) or 4.1 percent between 2003 and 2004. This decrease is attributable to a decline in patient volumes due to several physicians leaving the medical staff in 2003. There was an increase in net patient services of \$550 between 2002 and 2003 comprised on in increase in patient volume combined with flat to declining payments from governmental and third-party payors.
- A decrease in salaries \$(2,083) or 9.7% percent between 2003 and 2004. Salaries for 2003 increased \$1,560 or 7.8 percent from 2002. Hospital staffing, wages and productivity did not maintain balance with net revenues. In 2003 certain positions were eliminated and certain employees elected to take earlier retirement, which realigned staffing to net revenues for 2004.
- A decrease in fringe benefit costs of \$(828) or 18.0 percent between 2003 and 2004, primarily attributable to health benefits. In 2004 the self-funded plan was redesigned to share a portion of the increased cost of the benefit with employees. The Hospital experienced a decrease in 2004 in utilization of this self-funded health plan from the historically high levels of 2003. The fringe benefit costs increased by \$1,815 or 65.0 percent between 2002 and 2003. During 2003, the Hospital experienced an increase in utilization in its self-funded health plan attributable to the high dollar, size and volume of the claims.
- In 2004 management focused on reducing other costs through renegotiation of existing contracts, changing service providers where necessary, reducing purchased/contract services, and focusing a supply usage. Through these efforts, an additional \$(823) in cost was taken out of the organization, which was partially off-set by increased insurance, utility, and professional fees and other costs of \$677.

Nonoperating Revenues and Expenses

Net nonoperating revenue (expenses) consists of income on the Hospital's investments, interest expense on outstanding debt and rental income on a medical office building. Other minor amounts consist of sales of supplies and pharmaceuticals to employees.

The \$(53) decrease in nonoperating revenues and expenses between 2003 and 2004 is primarily due to a decrease in interest paid on long-term debt and increased rental income from the medical office building, all of which was offset by decreased investment income as interest rates declined in 2004. Nonoperating revenues and expenses between 2002 and 2003 increased by \$164 due to a decline in interest paid on long term debt, a decline investment income, and an increase in rental income from the medical office building.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier. The Hospital also purchased fewer capital assets during 2004 that resulted in a decrease of cash used by capital and related financing activities compared to 2003.

Cash and Cash Equivalents

The Hospital reported cash and cash equivalents at June 30, 2004 of \$2,193 and at June 30, 2003 of \$999. Cash and cash equivalents increased in 2004 by \$1,193 or 119.4 percent as compared to 2003. Cash and cash equivalents decreased in 2003 by \$(29) or (2.8) percent as compared to 2002.

Investments

Investments that are not considered to be cash and cash equivalents were \$12,665 at June 30, 2004 and \$13,254 at June 30, 2003. These investments decreased in 2004 by \$(589) or 4.4 percent as compared to 2003 and increased in 2003 by \$621 or 4.9 percent as compared to 2002.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004 the Hospital had \$25,150 invested in capital assets, net of accumulated depreciation, as detailed in Note 3 to the financial statements. In 2004, the Hospital acquired new equipment with a cost of \$410. In 2003, the Hospital acquired new equipment with a cost of \$1,370. The Hospital leases and rents much of its equipment. This allows the Hospital to provide for capital replacement, while at the same time preserving its cash and investments.

Debt

At June 30, 2004, the Hospital had \$7,728 in revenue and refunding bonds outstanding, which is detailed in Note 4 to the financial statements. No new debt was issued in 2004 or 2003. The Hospital's formal debt issuances cannot be issued without approval of the Louisiana Bond Commission. Debt issuances reviewed by the Bond Commission is limited, primarily to the debt capacity of the Hospital and secondarily to the debt capacity of the City-Parish of Baton Rouge, see Note 1 to the financial statements. The Hospital met its debt service targets for fiscal year 2004. For fiscal year 2003 the Hospital received waivers from the bond holders as the debt service targets were not met for that year.

Other Economic Factors

In late 2003 a new management team was engaged to lead the Hospital through a period of change. This action was taken in response to the convergence of several environmental factors in 2003 that negatively affected the financial performance of the organization. In 2004 the Hospital's finances were stabilized and greatly improved, new physicians were recruited to the community, clinical equipment was updated, and services were expanded.

Contacting the Service District Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, creditors and community, with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the Chief Financial Officer at Lane Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791.



Members of the American Institute of Certified Public Accountants
Mississippi Society of Certified Public Accountants
Tennessee Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

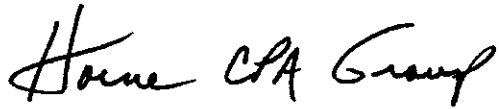
We have audited the accompanying balance sheets of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These 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 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 financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of June 30, 2004 and 2003, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2004, 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 grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Home CPA Group".

Jackson, Mississippi
October 8, 2004

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL**

Balance Sheets
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,192,639	\$ 999,380
Certificates of deposit	1,564,635	1,000,000
Short-term investments	4,749,878	5,653,658
Investments held by trustee for debt service	304,290	287,251
Patient accounts receivable, net of allowances for doubtful accounts of \$1,534,074 in 2004 and \$1,501,157 in 2003	7,290,350	6,919,997
Inventories	443,844	486,813
Other current assets	413,607	286,697
Total current assets	16,959,243	15,633,796
Noncurrent certificates of deposit	6,350,000	6,600,000
Capital assets, net	25,149,776	26,935,218
Other assets	1,410,621	919,286
Total assets	\$ 49,869,640	\$ 50,088,300
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	\$ 1,043,646	\$ 1,008,646
Accounts payable	853,757	749,198
Accrued salaries and wages	900,336	914,950
Accrued compensated absences	727,449	876,386
Accrued payroll withholdings	386,631	414,852
Estimated third-party payor settlements	1,717,823	1,174,834
Other current liabilities	781,979	802,593
Total current liabilities	6,411,621	5,941,459
Long-term debt, less current maturities	6,684,337	7,727,983
Total liabilities	13,095,958	13,669,442
Net assets		
Invested in capital assets net of related debt	17,421,793	18,198,589
Restricted for debt service	304,290	287,251
Unrestricted	19,047,599	17,933,018
Total net assets	36,773,682	36,418,858
Total liabilities and net assets	\$ 49,869,640	\$ 50,088,300

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$3,203,541 in 2004 and \$2,835,267 in 2003	\$ 36,222,982	\$ 37,760,918
Other operating revenue	4,152,139	3,953,699
Total operating revenues	40,375,121	41,714,617
Operating expenses		
Salaries	19,379,483	21,462,617
Fringe benefits	3,778,191	4,606,233
Nonmedical supplies	1,149,928	1,362,304
Medical supplies	4,494,656	4,911,533
Professional fees	841,889	754,139
Contracted services	3,449,814	3,581,049
Utilities	1,007,617	948,072
Repairs and maintenance	745,005	808,412
Insurance	1,145,986	850,900
Depreciation and amortization	2,670,459	2,520,276
Other	1,806,147	1,722,201
Total operating expenses	40,469,175	43,527,736
Operating loss	(94,054)	(1,813,119)
Nonoperating revenue (expenses)		
Investment income	320,448	484,531
Interest expense	(173,432)	(240,874)
Other nonoperating revenue	301,862	257,944
Net nonoperating revenue	448,878	501,601
Increase (decrease) in net assets	354,824	(1,311,518)
Net assets, beginning of year	36,418,858	37,730,376
Net assets, end of year	\$ 36,773,682	\$ 36,418,858

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 36,403,854	\$ 39,165,386
Payments to suppliers and contractors	(15,753,453)	(15,323,009)
Payments to employees	(23,321,225)	(25,633,509)
Other receipts and payments, net	4,152,139	3,953,699
	<hr/>	<hr/>
Net cash provided by operating activities	1,481,315	2,162,567
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
Other nonoperating revenues	301,862	257,944
	<hr/>	<hr/>
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(1,008,646)	(983,647)
Interest paid on long-term debt	(173,432)	(240,874)
Proceeds from sale of capital assets	1,200	10,603
Purchase of capital assets	(301,594)	(1,369,701)
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(1,482,472)	(2,583,619)
	<hr/>	<hr/>
Cash flows from investing activities		
Interest and dividends on investments	320,448	484,531
Purchase of investments	(314,635)	(1,450,000)
Proceeds from sale of investments	886,741	1,099,720
	<hr/>	<hr/>
Net cash provided by investing activities	892,554	134,251
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	1,193,259	(28,857)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	999,380	1,028,237
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 2,192,639	\$ 999,380
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes.

	2004	2003
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (94,054)	\$ (1,813,119)
Adjustments to reconcile operating loss to net cash flows provided by operating activities		
Depreciation and amortization	2,670,459	2,520,276
Loss (gain) on disposal of property and equipment	8,236	(9,925)
Provision for bad debts	3,203,541	2,835,267
Changes in		
Patient accounts receivable	(3,573,894)	(3,712,274)
Inventories and other current assets	42,969	39,570
Other assets	(1,102,619)	(551,444)
Accounts payable and other current payables	(24,540)	93,611
Accrued expenses and payroll withholdings	(191,772)	479,130
Estimated third-party payor settlements	542,989	2,281,475
	<u>\$ 1,481,315</u>	<u>\$ 2,162,567</u>
Net cash provided by operating activities		
Noncash investing, capital and financing activities		
Purchase of capital assets included in accounts payable	<u>\$ 108,485</u>	<u>\$ -</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO 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 Memorial Hospital (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 (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.

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.

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.

Additionally, the Hospital does not have any components units, which are defined by GASB Statement No. 14 as other legally separate organizations for which the elected officials are financially accountable. There are no other primary governments with which the Hospital has a significant relationship.

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. 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.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 includes 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. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets.

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 nonoperating 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.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Patient Accounts Receivable

Patients 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 life 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.

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.

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.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 statements of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care 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.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy without charge or at rates substantially lower than its prevailing rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Note 2. Deposits and Investments

The Hospital has various deposits and investments. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 - Insured or registered, or securities held by the Hospital or its agent in the Hospital's name.
- Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the Hospital's name.
- Category 3 - Uninsured and unregistered, with securities held by counterparty, or by its trust department or agent, but not in the Hospital's name.

At June 30, 2004 and 2003, the fair value and risk categories of the Hospital's deposits and investments were as follows:

	Risk Category	2004	2003
Petty cash	1	\$ 3,000	\$ 2,900
Demand deposit and money market accounts	1	2,808,564	1,283,731
Certificates of deposit	1	7,600,000	7,600,000
Mutual Funds - U. S. Government Securities	N/A	1,706,592	4,418,178
Louisiana Hospital Investment Pool	N/A	1,795,863	-
Louisiana asset management pool	N/A	1,247,423	1,235,480
Total		\$ 15,161,442	\$ 14,540,289

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The amounts above are reflected on the accompanying balance sheets as follows:

	2004	2003
Cash and cash equivalents	\$ 2,192,639	\$ 999,380
Short-term investments	4,749,878	5,653,658
Investments held by trustee for debt service	304,290	287,251
Current certificates of deposit	1,564,635	1,000,000
Noncurrent certificates of deposits	6,350,000	6,600,000
 Total	 \$ 15,161,442	 \$ 14,540,289

Under state law, these deposits must be secured by either Federal deposit insurance or by the pledge of securities owned by a 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. At June 30, 2004, the Hospital had \$10,429,078 in deposits (collected bank balances). Of these bank balances, \$200,000 was covered by Federal depository insurance, and the remainder was secured by collateral held by the fiscal agent bank in the name of the Hospital.

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.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2004 and 2003 were as follows:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Land and land improvements	\$ 1,618,307	\$ -	\$ -	\$ 1,618,307
Buildings	26,391,602	18,592	-	26,410,194
Fixed equipment	3,715,912	-	-	3,715,912
Movable and other equipment	18,967,761	389,583	69,588	19,287,756
Physicians' office building and equipment	3,099,733	1,904	-	3,101,637
Totals at historical cost	53,793,315	410,079	69,588	54,133,806
Less accumulated depreciation for				
Land improvements	192,440	1,735	-	194,175
Buildings	9,390,295	663,004	-	10,053,299
Fixed equipment	3,219,197	162,029	-	3,381,226
Movable and other equipment	13,128,411	1,242,139	60,152	14,310,398
Physicians' office building and equipment	927,754	117,178	-	1,044,932
Total accumulated depreciation	26,858,097	2,186,085	60,152	28,984,030
Capital assets, net	\$ 26,935,218	\$ (1,776,006)	\$ 9,436	\$ 25,149,776
	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Land and land improvements	\$ 1,618,307	\$ -	\$ -	\$ 1,618,307
Buildings	26,204,289	187,313	-	26,391,602
Fixed equipment	3,715,912	-	-	3,715,912
Movable and other equipment	18,037,555	1,168,804	238,598	18,967,761
Physicians' office building and equipment	3,090,509	13,584	4,360	3,099,733
Totals at historical cost	52,666,572	1,369,701	242,958	53,793,315
Less accumulated depreciation for				
Land improvements	190,705	1,735	-	192,440
Buildings	8,694,598	695,697	-	9,390,295
Fixed equipment	3,090,020	129,177	-	3,219,197
Movable and other equipment	11,986,448	1,379,880	237,917	13,128,411
Physicians' office building and equipment	807,060	124,981	4,287	927,754
Total accumulated depreciation	24,768,831	2,331,470	242,204	26,858,097
Capital assets, net	\$ 27,897,741	\$ (961,769)	\$ 754	\$ 26,935,218

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2004 and 2003 follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds payable					
Series 1996	\$ 5,335,000	\$ -	\$ 550,000	\$ 4,785,000	\$ 585,000
Series 2000	2,542,858	-	342,858	2,200,000	342,857
Series 2001	858,771	-	115,788	742,983	115,789
Total long-term debt	\$ 8,736,629	\$ -	\$ 1,008,646	\$ 7,727,983	\$ 1,043,646

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds payable					
Series 1996	\$ 5,860,000	\$ -	\$ 525,000	\$ 5,335,000	\$ 550,000
Series 2000	2,885,715	-	342,857	2,542,858	342,858
Series 2001	974,561	-	115,790	858,771	115,788
Total long-term debt	\$ 9,720,276	\$ -	\$ 983,647	\$ 8,736,629	\$ 1,008,646

Long-Term Debt

The terms and due dates of the Hospital's long-term debt at June 30, 2004 and 2003, follow:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65 percent of LIBOR, plus 1.6 percent, 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 2000), variable interest rates, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.

As part of the bond agreement, 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 year ended June 30, 2004.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2005	\$ 1,043,646	\$ 138,040
2006	1,073,646	119,495
2007	1,103,646	98,622
2008	1,138,646	77,873
2009	1,173,646	55,482
2010 to 2011	2,194,753	40,740
	<u>\$ 7,727,983</u>	<u>\$ 530,252</u>

Note 5. 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; and natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured with respect to employee health and dental benefits.

The Hospital has a self-insured retention of \$100,000 per claim for its coverage of professional liability; additional coverage is provided by the Louisiana Patient's Compensation Fund for the next \$400,000 of professional liability up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expense provided by law).

The Hospital also has a \$100,000 self-insurance retention for its coverage of general liability with a limit of \$1,000,000 per occurrence and with no annual aggregate. An additional umbrella excess general liability policy provides additional excess coverage of \$9,000,000 per occurrence and \$9,000,000 per annual aggregate.

The Hospital is also self-insured for medical, dental, and workers' compensation 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.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

The claims liabilities at June 30, 2004 and 2003 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 final 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:

	2004	2003
Claims liability, beginning of year	\$ 550,000	\$ 250,000
Current year claims and changes in estimates	2,227,395	2,870,205
Current year claims payments	<u>(2,419,972)</u>	<u>(2,570,205)</u>
Claims liability, end of year	<u>\$ 357,423</u>	<u>\$ 550,000</u>

Note 6. Pension Plan

The Hospital sponsors the Lane Memorial Hospital Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board 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 to amend 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 2 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 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest 3 anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after 5 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 Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Funding Policy

Participants are required to contribute 1 percent of their monthly earnings up to \$400 plus 2 percent of their monthly earnings in excess of \$400. 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 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 April 2004 for the plan year ending June 30, 2004, 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, 2004, 2003, and 2002, were as follows:

	2004	2003	2002
Discount rates	7.00%	8.00%	8.00%
Rates of increase in compensation levels	3.00%	4.00%	4.00%
Expected long-term rate of return on assets	7.00%	8.00%	8.00%

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Based on the latest actuarial valuation in April 2004, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2003, 2002 and 2001:

	July 1, 2003	July 1, 2002	July 1, 2001
Actuarial value of plan assets	\$ 11,622,354	\$ 12,933,588	\$ 13,521,947
Actuarial accrued liability	\$ 12,582,740	\$ 12,764,862	\$ 12,867,783
Funded excess (deficiency)	\$ (960,386)	\$ 168,726	\$ 654,164
Funded ratio	92.4%	101.3%	105.08%
Annual covered payroll	\$ 10,670,576	\$ 11,693,447	\$ 10,534,152
Funded excess (deficiency) as a percentage of annual covered payroll	(9.0%)	1.44%	6.21%

The Hospital had an annual required contribution of \$466,656 and \$364,644 for the year ended June 30, 2004 and 2003, respectively. The Hospital had no annual required contribution, annual pension cost or net pension obligation at June 30, 2002, as calculated under GASB 27 "Accounting for Pensions by State and Local Governmental Employers."

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 were as follows:

Annual required contribution	\$ 466,656
Interest on net pension obligation	25,525
Adjustment to annual required contribution	(28,510)
Annual pension cost	463,671
Contributions made	(466,656)
Decrease in net pension obligation	(2,985)
Net pension obligation, beginning of year	364,644
Net pension obligation, end of year	\$ 361,659

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 7. Business and Credit Concentrations

Financial instruments which 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, 2004 and 2003, was as follows:

	2004	2003
Medicare	44%	36%
Medicaid	5	15
Commercial insurance companies, health maintenance organizations, and other	47	37
Self-pay patients	4	12
	100%	100%

Note 8. 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

Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or occurrence. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt inpatient services and outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2000. In the opinion of management, the amounts included in the financial statements as estimated third-party settlements contain adequate provisions for any adjustments that may result from reviews of open costs reports.

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.

Other

The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

	2004	2003
Medicare	24%	25%
Medicaid	39	41
Commercial insurance companies and health maintenance organizations	31	28
Self-pay patients and other	6	6
	<u>100%</u>	<u>100%</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2004 and 2003, consisted of the following:

	2004	2003
Physician revenues	\$ 3,765,465	\$ 3,456,256
Cafeteria revenues	244,384	307,032
Other	142,290	190,411
Total other operating revenues	<u>\$ 4,152,139</u>	<u>\$ 3,953,699</u>

Note 10. 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 11. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 40 (GASB 40)

The Hospital will adopt the provisions of GASB 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for fiscal year 2005. This statement modifies the disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reserve Repurchase Agreements*, which will result in changes to the investment disclosures in the financial statements.

Governmental Accounting Standards Board Statement No. 42 (GASB 42)

The Hospital will adopt the provision of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* during fiscal year 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service usage has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. Management has not evaluated the effect of the adoption of this Statement on the financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2004 and 2003**

NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Governmental Accounting Standards Board Statement No. 43 (GASB 43)

The Hospital will adopt GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* during fiscal year 2007. In addition to pensions, many state and local governmental employers provide other post employment benefits (OPEB) as part of the total compensation offered to attract and retain services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan.

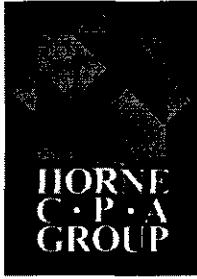
The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plan or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. Management has not evaluated the effect of adoption of this Statement on the financial statements.

Governmental Accounting Standards Board Statement No. 44 (GASB 44)

The Hospital will adopt GASB 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement 1* during fiscal year 2006. This Statement enhances and updates the statistical section that accompanies a state or local government's basic financial statements to reflect the significant changes that have taken place in government finance, including the more comprehensive government-wide financial information required by GASB Statement 43. Management has not evaluated the effect of adopting this Statement.

Government Accounting Standards Board Statement No. 45 (GASB 45)

The Hospital will adopt GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during fiscal year 2009. This Statement addresses how state and local governments should account for and report costs and obligations related to post employment benefits (OPEB). Management has not evaluated the effect of adopting this Statement.



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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION**

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

Our independent auditor's report on the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of and for the years ended June 30, 2004 and 2003, appears on pages 7 and 8. Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The required supplemental schedule contained on page 31, which is also the responsibility of the Hospital's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Horne CPA Group

Jackson, Mississippi
October 8, 2004

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Schedules of Board of Commissioners and Salaries
Years Ended June 30, 2004 and 2003

	2004	2003
Hubert C. Owens, M.D.	\$ -	\$ 25
Nick Adams	-	25
Jerry Broudreux	275	275
Etta Kay Hearn	100	275
Catherine Pourciau	100	225
Robert Williams, Jr.	225	300
Steve Stein	-	250
Richard Sessoms	275	275
Judy Myles	200	250
Patricia D. Gauthier	275	275
John V. Richey, M.D.	275	300
James Carroll	250	-
Dell Guerra	175	-
William King	150	-
	<u>\$ 2,300</u>	<u>\$ 2,475</u>



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. 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.

Compliance

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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting.

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Hospital in a separate letter.

This report is intended for the information of the Board of Commissioners, management of Lane Memorial Hospital, 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.

A handwritten signature in cursive script that reads "Home CPA Group".

Jackson, Mississippi
October 8, 2004



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Finance Committee
Hospital Service District No.1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital

We have audited the financial statements of the Hospital Service District No. 1 of East Baton Rouge Parish Louisiana, d/b/a Lane Memorial Hospital (the Hospital), as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004.

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Hospital for the year ended June 30, 2004. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the Hospital's practices and procedures.

Reconciliation of Accounts and Closing Procedures

We noted certain general ledger accounts such as Cash, Rent Receivable and Property and Equipment were not reconciled in a timely manner or were reconciled incorrectly. We recommend all significant accounts be reconciled timely to the general ledger balance and reviewed on a monthly basis.

Management's Response

During the fiscal year cash was being reconciled; however, management determined that the reconciliation could not be relied upon. At approximately the same time management determined that rent receivable was not being reconciled. These accounts are now being reconciled on a monthly basis with appropriate review by the controller.

The property and equipment accounts got out of balance due to how the fixed asset system (i.e. FAS) treats disposals. The FAS does not separate accumulated depreciation on assets that are disposed of during the fiscal year from assets that are still in use. This caused the Hospital to take more depreciation than necessary. We will be examining other FAS software systems that record and present accumulated depreciation on a more reasonable basis.

Management of Capital Assets

The Hospital does not have a formal disposal policy in place for the disposition of capital assets. There is also no physical inventory of capital assets performed. We recommend that the Hospital establish and implement a formal disposal policy and perform a periodic physical inventory of capital assets. This will allow for management to analyze the age and use of capital assets as well as manage and budget for expected future capital expenditures.

Management's Response

The Hospital is implementing a capital asset disposition policy that requires approval from either the CFO or CEO before any asset may be disposed. In addition, the Hospital is formulating and will be adopting an asset physical inventory policy.

Back-up of IT System

The Hospital does not maintain back-ups of the computer system at month-end or year-end. Daily and weekly back-ups are performed and stored offsite. We recommend that the Hospital implement a back-up procedure to be performed and retained for each month-end and year-end due to the significant amount of information that may be date sensitive for those periods.

Management's Response

We have implemented IT procedures to back-up month-end, calendar year-end, and fiscal year-end. These data back-ups are being saved off-site with the current daily and weekly back-ups.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital.

This letter is intended solely for the information and use of the Board of Commissioners, the Finance Committee, management and others in the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Home CPA Group".

Jackson, Mississippi
October 8, 2004