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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, 2010 and 2009

Contents

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, 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, 2010 and 2009, 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 18, 2010, 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.

A Professional Accounting Corporation

October 18, 2010

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Consolidated Balance Sheets
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and Cash Equivalents	$ 11,304,639	$ 6,956,558
Short-Term Investments	16,754,184	16,519,176
Investments Held by Trustee for Debt Service	502,786	533,944
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of $3,669,401 in 2010, and $3,293,068 in 2009, Respectively	10,078,243	9,456,018
Inventory	762,830	765,222
Other Current Assets	858,598	672,764
Total Current Assets	40,261,280	34,903,682
Capital Assets, Net	51,663,640	48,909,246
Deferred Outflow- Derivative Instrument	186,504	-
Other Assets	849,084	2,101,432
Total Assets	$ 92,960,508	$ 85,914,360
Liabilities and Net Assets		
Current Liabilities		
Current Maturities of Long-Term Debt	$ 1,484,444	$ 1,449,444
Current Maturities of Capital Lease Obligations	2,409,500	2,138,604
Accounts Payable	1,901,235	2,067,481
Accrued Salaries and Wages	843,737	788,466
Accrued Compensated Absences	1,062,759	1,081,306
Accrued Payroll Withholdings	152,399	106,783
Estimated Third-Party Payor Settlements	6,944,873	2,386,339
Other Current Liabilities	832,213	659,658
Total Current Liabilities	15,631,160	10,678,081
Derivative Instrument- Swap	186,504	-
Long-Term Debt, Less Current Maturities	10,937,501	12,421,945
Long-Term Capital Leases Obligations, Less Current Maturities	4,655,601	4,743,849
Total Liabilities	31,410,766	27,843,875
Net Assets		
Invested in Capital Assets Net of Related Debt	32,176,594	28,155,404
Restricted for Debt Service	502,786	533,944
Unrestricted	28,870,362	29,381,137
Total Net Assets	61,549,742	58,070,485
Total Liabilities and Net Assets	$ 92,960,508	$ 85,914,360

The accompanying notes are an integral part of these 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, 2010 and 2009

	2010	2009
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts		
of $17,329,472 in 2010, and $14,147,826 in 2009	$ 69,204,565	$ 64,236,166
Other Operating Revenue (Net of Expenses)	492,149	738,602
Total Operating Revenues	69,696,714	64,974,768
Operating Expenses		
Salaries	29,397,384	28,269,714
Non-Medical Supplies	11,500,696	10,682,624
Fringe Benefits	6,299,032	5,177,924
Depreciation and Amortization	6,095,146	5,791,266
Contracted Services	4,884,084	4,354,696
Other	1,817,233	1,908,133
Repairs and Maintenance	1,724,664	1,378,954
Professional Fees	1,527,553	1,456,241
Medical Supplies	1,463,589	1,534,405
Insurance	1,101,523	1,170,709
Utilities	879,234	1,135,692
Total Operating Expenses	66,690,138	62,860,358
Operating Income	3,006,576	2,114,410
Non-Operating Revenue (Expenses)		
Investment Income	377,921	746,465
Interest Expense	(524,983)	(345,310)
Other Non-Operating Revenue	619,743	557,405
Net Non-Operating Revenue	472,681	958,560
Change in Net Assets	3,479,257	3,072,970
Net Assets, Beginning of Year	58,070,485	54,997,515
Net Assets, End of Year	$ 61,549,742	$ 58,070,485

The accompanying notes are an integral part of these 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, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Receipts from and on Behalf of Patients	$ 73,633,023	$ 65,498,618
Payments to Suppliers and Contractors	(25,329,079)	(25,830,922)
Payments to Employees	(35,441,521)	(33,142,697)
Net Cash Provided by Operating Activities	12,862,423	6,524,999
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues	619,743	557,405
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Leases	(2,333,119)	(1,782,675)
Principal Paid on Long-Term Debt	(1,449,444)	(1,997,011)
Interest Paid on Long-Term Debt	(524,983)	(345,310)
Purchase of Capital Assets	(5,000,611)	(5,363,320)
Net Cash Used in Capital and Related Financing Activities	(9,308,157)	(9,488,316)
Cash Flows from Investing Activities		
Interest and Dividends on Investments	377,921	746,465
Purchase of Investments	(443,474)	-
Proceeds from Sale of Investments	239,625	8,495,855
Net Cash Provided by Investing Activities	174,072	9,242,320
Increase in Cash and Cash Equivalents	4,348,081	6,836,408
Cash and Cash Equivalents, Beginning of Year	6,956,558	120,150
Cash and Cash Equivalents, End of Year	$ 11,304,639	$ 6,956,558

The accompanying notes are an integral part of these 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, 2010 and 2009

	2010	2009
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating Income	**$ 3,006,576**	$ 2,114,410
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	**6,095,146**	5,791,266
Loss on Disposal of Property and Equipment	**20,798**	22,116
Provision for Bad Debts	**17,329,472**	14,147,826
Changes in:		
Patient Accounts Receivable	**(17,951,697)**	(14,961,315)
Inventory and Other Current Assets	**(183,442)**	(83,637)
Other Assets	**750,341**	(539,682)
Accounts Payable and Other Current Payables	**(166,246)**	(1,608,265)
Accrued Expenses and Payroll Withholdings	**254,895**	304,941
Estimated Third-Party Payor Settlements	**4,558,534**	1,337,339
Net Cash Provided by Operating Activities	**$ 13,714,377**	$ 6,524,999
Schedule of Non-Cash Investing, Capital and Financing Activities		
Acquisition of Capital Assets Through Capital Leases	**$ 2,515,766**	$ 4,513,034

The accompanying notes are an integral part of these 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 year ended June 30, 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- and $202,121, for the years ended June 30, 2010 and 2009, respectively. These amounts represent interest expense on bonds allocated to construction costs of $-0- and $249,149, offset by $-0- and $47,028, of interest income earned on bond proceeds and allocated to construction costs for the years ended June 30, 2010 and 2009, respectively.

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 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.

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, and the Hospital can not quantify this amount.

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

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 balance sheets are as follows:

	2010	2009
Cash and Cash Equivalents	**$ 11,304,639**	$ 6,956,558
Short-Term Investments	**16,754,184**	16,519,176
Investments Held by Trustee for Debt Service	**502,786**	533,944
Total	**$ 28,561,609**	$ 24,009,678

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.

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.

Note 2. Deposits and Investments (Continued)

Investments Held by Trustee for Debt Service as of June 30, 2010 and 2009 consisted of money market funds.

At June 30, 2010 and 2009, the Hospital's short-term investments consisting 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, 2010 and 2009, 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, 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 3. Capital Assets (Continued)

Capital asset additions, retirement, and balances for the year ended June 30, 2009, is as follows:

	June 30, 2008	Additions	Retirements and Transfers	June 30, 2009
Capital Assets, Not Being Depreciated				
Land and Land Improvements	$ 4,262,095	$ 4,327	$ (2,428)	$ 4,263,994
Construction in Progress	7,745,448	154,839	(7,745,448)	154,839
Total Capital Assets, Not Being Depreciated	12,007,543	159,166	(7,747,876)	4,418,833
Capital Assets, Being Depreciated				
Buildings	29,671,009	440,497	3,437,778	33,549,284
Fixed Equipment	3,725,282	723,544	-	4,448,826
Movable and Other Equipment	27,119,577	3,171,700	(1,566,141)	28,725,136
Physicians' Office Building and Equipment	5,596,870	5,384,987	4,267,219	15,249,076
Total Capital Assets, Being Depreciated	66,112,738	9,720,728	6,138,856	81,972,322
Less: Accumulated Depreciation for:				
Land Improvements	199,367	18,242	(2,428)	215,181
Buildings	12,704,238	1,053,269	-	13,757,507
Fixed Equipment	3,717,158	2,777	-	3,719,935
Movable and Other Equipment	16,756,432	2,857,033	(1,544,025)	18,069,440
Physicians' Office Building and Equipment	1,530,665	229,632	(40,451)	1,719,846
Total Accumulated Depreciation	34,907,860	4,160,953	(1,586,904)	37,481,909
Total Capital Assets, Being Depreciated, Net	$ 43,212,421	$ 5,718,941	$ (22,116)	$ 48,909,246

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2010 and 2009, follows:

	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

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amount Due Within One Year
Bonds Payable					
Series 1996	$ 2,260,000	$ -	$ 715,000	$ 1,545,000	$ 755,000
Series 2000	847,494	-	847,494	-	-
Series 2001	260,906	-	260,906	-	-
Series 2007	12,500,000	-	173,611	12,326,389	694,444
Total Long-Term Debt	$ 15,868,400	$ -	$ 1,997,011	$ 13,871,389	$ 1,449,444

The terms and due dates of the Hospital's long-term debt at June 30, 2010 and 2009, follows:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65 percent of monthly 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 on the Bond established weekly in accordance with Article V, section 5.02(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture. Outstanding principal balance on the Bond was paid in full during fiscal year ending June 30, 2009.

- Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates on the Bond established weekly in accordance with Article V, section 5.02(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture. Outstanding principal balance on the Bond was paid in full during fiscal year ending June 30, 2009.

Note 4. Long-Term Debt (Continued)

- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with the Third Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, due in monthly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2010, the effective rate was 1.26%. See additional information regarding the Hospital's interest rate swap agreement at Note 5.

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 year ended June 30, 2010 an d 2009.

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

	Long-Term Debt	
	Principal	Interest
2011	$ 1,484,444	$ 192,230
2012	694,444	138,953
2013	694,444	129,915
2014	694,444	120,877
2015	694,444	118,840
2016-2020	3,472,220	423,636
2021-2025	3,472,220	197,697
Thereafter	1,215,285	15,808
Total	$ 12,421,945	$ 1,337,956

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 $90,000 for the year ended June 30, 2010 related to the swap agreement. At June 30, 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, 2010, the Hospital has the following derivative instruments outstanding:

Type	Objective	Notional Amount	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, 2010, 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
2011	$ 1,484,444	$ 192,230	$ 166,667	$ 1,843,341
2012	694,444	138,953	134,444	967,841
2013	694,444	129,915	125,556	949,915
2014	694,444	120,877	116,667	931,988
2015	694,444	118,840	107,778	921,062
2016-2020	3,472,220	423,636	405,556	4,301,412
2021-2025	3,472,220	197,697	183,333	3,853,250
Thereafter	1,215,285	15,808	11,667	1,242,760
Total	$ 12,421,945	$ 1,337,956	$ 1,251,668	$ 15,011,569

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, 2010, 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.

Note 5. Derivative Instruments (Continued)

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 2015. 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 2010 and 2009.

Depreciation on assets under capital leases charged to expense in 2010 and 2009, is $2,416,202 and $1,981,422, respectively.

Following is a summary of property held under capital leases:

	2010	2009
Equipment	**$ 13,311,012**	$ 10,795,246
Less: Accumulated Depreciation	**(6,787,800)**	(4,371,598)
Total	**$ 6,523,212**	$ 6,423,648

Note 6. Capital Leases (Continued)

A schedule of changes in the Hospital's capital leases for 2010 and 2009 follows:

	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

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #1	$ 13,217	$ -	$ 13,217	$ -	$ -
Leased Equipment Rider #2	45,798	-	45,798	-	-
Leased Equipment Rider #3	526,114	-	130,910	395,204	137,540
Leased Equipment Rider #4	118,765	-	88,389	30,376	30,376
Leased Equipment Rider #5	248,540	-	146,687	101,853	101,853
Leased Equipment Rider #6	350,789	-	157,216	193,573	165,227
Leased Equipment Rider #7	269,419	-	107,738	161,681	112,991
Leased Equipment Rider #8	661,118	-	230,082	431,036	241,734
Leased Equipment Rider #9	1,918,334	-	499,407	1,418,927	516,896
Leased Equipment Rider #10	-	2,253,915	187,017	2,066,898	290,623
Leased Equipment Rider #11	-	2,259,119	176,214	2,082,905	541,364
Total Capital Lease Obligation	$ 4,152,094	$ 4,513,034	$1,782,675	$ 6,882,453	$ 2,138,604

Note 6. Capital Leases (Continued)

Minimum future lease payments under capital leases as of June 30, 2010, for each of the next five years, and in the aggregate are:

	Capital Lease	
	Principal	Interest
2011	$ 2,409,500	$ 234,965
2012	2,001,961	147,082
2013	1,378,997	80,459
2014	792,254	35,256
2015	482,389	14,637
Total	$ 7,065,101	$ 512,399

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. The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000. The Hospital is self-insured for costs up to $100,000 per claim.

The Hospital also has $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.

Note 7. Insurance Programs (Continued)

The claims liabilities at June 30, 2010 and 2009 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:

	2010	2009
Claims Liability, Beginning of Year	**$ 658,924**	$ 531,302
Current Year Claims and Changes in Estimates	**3,898,842**	3,020,209
Current Year Claims Payments	**(3,725,804)**	(2,892,587)
Claims Liability, End of Year	**$ 831,962**	$ 658,924

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 percent 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 2010, for the Plan year ending June 30, 2010, 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, 2010, 2009 and 2008, were as follows:

	2010	2009	2008
Discount Rates	**7.00%**	7.00%	7.00%
Rates of Increase in Compensation Levels	**4.00%**	3.00%	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 2010, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2009, 2008 and 2007:

	July 1, 2009	July1, 2008	July 1, 2007
Actuarial Value of Plan Assets	$ 17,744,855	$ 17,169,090	$ 16,064,507
Actuarial Accrued Liability	$ 18,608,964	$ 17,924,566	$ 16,838,872
Unfunded Liability	$ (864,109)	$ (755,476)	$ (744,365)
Funded Ratio	95.4%	95.8%	95.4%
Annual Covered Payroll	$ 7,190,566	$ 7,337,854	$ 7,310,392
Unfunded Deficiency as a Percentage of Annual Covered Payroll	(12.0%)	(10.60%)	(11.14%)

The Hospital had an annual required contribution of $430,330, $299,240, and $282,571, for the years ended June 30, 2010, 2009, and 2008, 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	$ 430,330
Interest on Net Pension Obligation	(9,641)
Adjustment to Annual Required Contribution	13,046
Annual Pension Cost	433,735
Contributions Made	430,330
Increase in Net Pension Obligation	3,405
Net Pension (Overpayment) Obligation, Beginning of Year	(135,159)
Net Pension (Overpayment) Obligation, End of Year	$ (131,754)

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, 2010 and 2009, is as follows:

	2010	2009
Medicare	**23%**	26%
Medicare Risk	**14**	11
Medicaid	**5**	7
Commercial Insurance Companies, Health Maintenance Organizations, and Other	**51**	50
Self-Pay Patients	**7**	6
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, 2006.

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 31 percent and 5 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2010, and 34 percent and 6 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2009. 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. The 2010 net patient revenue decreased by approximately $5,678,847 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:

	2010	2009
Medicare	**35%**	35%
Medicare Risk	**13**	13
Medicaid	**14**	15
Commercial Insurance Companies, Health Maintenance Organizations, and Other	**32**	31
Self-Pay Patients	**6**	6
Total	**100%**	100%

Note 11. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2010 and 2009, consists of the following:

	2010	2009
Physician Revenues	**$ 2,693,946**	$ 2,529,568
Cafeteria Revenues	**434,249**	427,442
Other	**369,017**	1,124,757
Total Other Operating Revenues	**3,497,212**	4,081,767
Less: Related Expenses	**(3,005,063)**	(3,343,165)
Net Other Operating Revenue	**$ 492,149**	$ 738,602

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, 2010, the Hospital has achieved the aforementioned requirements.

Note 13. Subsequent Events

The Board has approved the issuance of $8.25 million in Go Zone Bonds. As of October 18, 2010 the Bonds have not been issued.

Management has evaluated subsequent events through the date that the basic consolidated financial statements were available to be issued, October 18, 2010, and determined that no events occurring that required disclosure except for the items mentioned above. No subsequent events occurring after this date have been evaluated for inclusion in these basic consolidated financial statements.

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, 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, 2010 and 2009, 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 18, 2010

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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, 2010 and 2009

	2010	2009
Judy Myles	$ **175**	$ -
Robert Williams, Jr.	**225**	225
Howard Martin, M.D.	**-**	50
Richard Sessoms	**-**	200
Patricia D. Gauthier	**250**	250
James Carroll	**175**	250
Dell Guerra	**250**	250
Jimmy Jackson	**250**	225
Mark Thompson	**250**	250
Jackie Snowden	**-**	175
Joan Lansing	**200**	-
Jeffrey Gruner, M.D.	**225**	25
Total	**$ 2,000**	$ 1,900

LaPorte Sehrt
Romig Hand

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, 2010, which collectively comprise the Hospital's basic consolidated financial statements and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 18, 2010

A. FINDINGS-FINANCIAL STATEMENT AUDIT

No Findings Noted.

HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Prior Year Audit Findings
For the Year Ended June 30, 2009

A. FINDINGS-FINANCIAL STATEMENT AUDIT

No Findings Noted.