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

**FINANCIAL STATEMENTS**

**JUNE 30, 2000 AND 1999**

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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 12-06-00





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

**FINANCIAL STATEMENTS**

**JUNE 30, 2000 and 1999**



## C O N T E N T S

|  | <u>Page</u> |
|--|-------------|
| <u>Independent Auditors' Reports</u>   |             |
| Independent Auditors' Report   | 1           |
| Independent Auditors' Report on compliance and on<br>internal control over financial reporting based on<br>an audit of the general purpose financial statements<br>performed in accordance with <i>Government</i><br><i>Auditing Standards</i> | 2 - 3       |
| <u>Financial Statements</u>  |             |
| Balance Sheets   | 4 - 5       |
| Statements of Operations   | 6           |
| Statements of Changes in Fund Balance  | 7           |
| Statements of Cash Flows   | 8 - 9       |
| Notes to Financial Statements  | 10 - 20     |
| <u>Supplemental Information</u>  |             |
| Independent Auditors' Report on Supplemental Information   | 21          |
| Schedules of Board of Commissioners and Salaries   | 22          |





**Postlethwaite & Netterville**

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**INDEPENDENT AUDITORS' REPORT**

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

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, 2000 and 1999, and the related statements of operations, changes in fund balance, 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 generally accepted auditing standards 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2000, 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 Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
August 28, 2000



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

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

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 years ended June 30, 2000 and 1999, and have issued our report thereon dated August 28, 2000. We conducted our audits in accordance with generally accepted auditing standards 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 audits, 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 in a separate letter dated August 28, 2000.

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 parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
August 28, 2000



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

**BALANCE SHEETS**  
**JUNE 30, 2000 AND 1999**

**A S S E T S**

|   | <u>2000</u>                 | <u>1999</u>                 |
|---|-----------------------------|-----------------------------|
| <b><u>CURRENT ASSETS</u></b>  |                             |                             |
| Cash  | \$ 4,062,905                | \$ 5,419,091                |
| Certificates of deposit   | 2,750,000                   | 2,750,000                   |
| Short-term investments  | 3,873,504                   | 2,707,732                   |
| Assets limited as to use  | 521,756                     | 500,095                     |
| Patient accounts receivable, net of allowances<br>for doubtful accounts of \$1,682,549 in 2000<br>and \$1,326,652 in 1999 | 7,043,472                   | 7,420,222                   |
| Estimated third-party payor settlements   | 134,891                     | 350,274                     |
| Other receivables   | 62,650                      | 85,123                      |
| Inventories   | 480,101                     | 440,800                     |
| Other current assets  | 227,685                     | 154,358                     |
| Total current assets  | <u>19,156,964</u>           | <u>19,827,695</u>           |
| <b><u>ASSETS LIMITED AS TO USE</u></b>  |                             |                             |
| Held by trustee in accordance with bond indentures  | 521,756                     | 500,095                     |
| Internally designated for future capital improvements   | 1,545,104                   | 2,142,667                   |
| Total assets limited as to use  | <u>2,066,860</u>            | <u>2,642,762</u>            |
| Less: amounts required to meet current liabilities  | (521,756)                   | (500,095)                   |
| Noncurrent assets limited as to use   | <u>1,545,104</u>            | <u>2,142,667</u>            |
| <b><u>PROPERTY AND EQUIPMENT, net</u></b>   | <u>28,586,894</u>           | <u>26,008,456</u>           |
| <b><u>OTHER ASSETS</u></b>  |                             |                             |
| Deferred financing costs  | 66,886                      | 71,290                      |
| Total other assets  | <u>66,886</u>               | <u>71,290</u>               |
| <b>TOTAL ASSETS</b>   | <u><u>\$ 49,355,848</u></u> | <u><u>\$ 48,050,108</u></u> |

The accompanying notes are an integral part of these statements.





**LIABILITIES AND FUND BALANCE**

|   | <u>2000</u>                 | <u>1999</u>                 |
|---|-----------------------------|-----------------------------|
| <b><u>CURRENT LIABILITIES</u></b>                       |                             |                             |
| Current maturities of long-term debt                    | \$ 475,000                  | \$ 450,000                  |
| Accounts payable  | 1,573,704                   | 891,195                     |
| Other current payables                                  | 617,140                     | 548,992                     |
| Estimated third-party payor settlements                 | 1,235,000                   | 1,988,132                   |
| Accrued expenses  | 905,013                     | 847,243                     |
| Payroll taxes payable                                   | 457,440                     | 246,535                     |
| Total current liabilities                               | <u>5,263,297</u>            | <u>4,972,097</u>            |
| <b><u>LONG-TERM DEBT, net of current maturities</u></b> | <u>6,360,000</u>            | <u>6,835,000</u>            |
| Total liabilities                                       | 11,623,297                  | 11,807,097                  |
| <b><u>UNRESTRICTED FUND BALANCE</u></b> (restated)      | <u>37,732,551</u>           | <u>36,243,011</u>           |
| <br>  |                             |                             |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b>               | <u><u>\$ 49,355,848</u></u> | <u><u>\$ 48,050,108</u></u> |



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

**STATEMENTS OF OPERATIONS**  
**YEARS ENDED JUNE 30, 2000 AND 1999**

|  | <u>2000</u>         | <u>1999</u>         |
|--|---------------------|---------------------|
| <b><u>OPERATING REVENUES</u></b>               |                     |                     |
| Net patient service revenues                   | \$ 35,017,366       | \$ 33,086,639       |
| Other operating revenues                       | 4,585,027           | 4,411,304           |
| Total operating revenues                       | <u>39,602,393</u>   | <u>37,497,943</u>   |
| <b><u>OPERATING EXPENSES</u></b>               |                     |                     |
| Salaries                                       | 17,590,917          | 16,768,499          |
| Fringe benefits                                | 2,866,886           | 2,397,739           |
| Non-medical supplies                           | 1,309,805           | 1,248,857           |
| Medical supplies                               | 4,500,814           | 4,269,751           |
| Professional fees                              | 1,855,919           | 1,796,864           |
| Contracted services                            | 2,190,691           | 2,249,733           |
| Utilities                                      | 750,813             | 682,511             |
| Repairs and maintenance                        | 742,550             | 702,648             |
| Insurance                                      | 407,418             | 554,003             |
| Depreciation and amortization                  | 2,210,536           | 2,091,173           |
| Interest expense                               | 256,410             | 103,835             |
| Provision for doubtful accounts                | 2,864,084           | 1,976,537           |
| Other  | 1,561,568           | 1,699,046           |
| Total operating expenses                       | <u>39,108,411</u>   | <u>36,541,196</u>   |
| <b><u>INCOME FROM OPERATIONS</u></b>           | <u>493,982</u>      | <u>956,747</u>      |
| <b><u>NONOPERATING REVENUES</u></b>            |                     |                     |
| Investment income                              | 662,317             | 619,864             |
| Other nonoperating revenues                    | 333,241             | 207,938             |
| Total nonoperating revenues                    | <u>995,558</u>      | <u>827,802</u>      |
| <b><u>EXCESS OF REVENUES OVER EXPENSES</u></b> | <u>\$ 1,489,540</u> | <u>\$ 1,784,549</u> |

The accompanying notes are an integral part of these statements.



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

**STATEMENTS OF CHANGES IN FUND BALANCE**  
**YEARS ENDED JUNE 30, 2000 AND 1999**

|   | <u>2000</u>                 | <u>1999</u>                 |
|---|-----------------------------|-----------------------------|
| Fund Balance - beginning of year (as previously reported) | \$ 36,978,011               | \$ 34,859,445               |
| Net effect of restatement (Note 11)                       | <u>(735,000)</u>            | <u>(400,983)</u>            |
| Fund Balance - beginning of year (as restated)            | 36,243,011                  | 34,458,462                  |
| Excess of revenues over expenses                          | <u>1,489,540</u>            | <u>1,784,549</u>            |
| Fund Balance - end of year                                | <u><u>\$ 37,732,551</u></u> | <u><u>\$ 36,243,011</u></u> |

The accompanying notes are an integral part of these statements.



**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, 2000 AND 1999**

|  | <u>2000</u>        | <u>1999</u>        |
|--|--------------------|--------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>   |                    |                    |
| Income from operations   | \$ 493,982         | \$ 956,747         |
| Interest expense considered capital financing activity   | 256,410            | 103,835            |
| Adjustments to reconcile income from operations to net cash provided by operating activities       |                    |                    |
| Depreciation and amortization  | 2,210,536          | 2,091,173          |
| Loss on disposals of property and equipment  | 23,587             | 61,495             |
| Provision for doubtful accounts  | 2,864,084          | 1,976,537          |
| Changes in operating assets and liabilities:   |                    |                    |
| Patient accounts receivable  | (2,487,334)        | (4,023,378)        |
| Estimated third-party payor settlements  | (537,749)          | 745,612            |
| Other receivables  | 22,473             | 88,393             |
| Inventories  | (39,301)           | (36,063)           |
| Other current assets   | (73,327)           | 74,048             |
| Accounts payable and other current payables  | 750,657            | (168,481)          |
| Accrued expenses and payroll taxes payable   | 277,917            | 14,140             |
| <i>Net cash provided by operating activities</i>   | <u>3,761,935</u>   | <u>1,884,058</u>   |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                    |                    |
| Acquisition of property and equipment  | (4,945,078)        | (2,881,094)        |
| Proceeds from sales of property and equipment  | 261,409            | -                  |
| Principal paid on long-term debt   | (450,000)          | (425,000)          |
| Interest paid on long-term debt  | (390,140)          | (402,460)          |
| <i>Net cash used in investing activities</i>   | <u>(5,523,809)</u> | <u>(3,708,554)</u> |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>   |                    |                    |
| Proceeds from the sales of certificates of deposit whose original maturities exceeded three months | -                  | 950,000            |
| Investment income  | 662,317            | 619,864            |
| Other nonoperating revenues  | 333,241            | 207,938            |
| <i>Net cash provided by investing activities</i>   | <u>995,558</u>     | <u>1,777,802</u>   |

The accompanying notes are an integral part of these statements.



**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, 2000 AND 1999**

|  | <u>2000</u>                 | <u>1999</u>                 |
|--|-----------------------------|-----------------------------|
| Net decrease in cash and cash equivalents                          | \$ (766,316)                | \$ (46,694)                 |
| Cash and cash equivalents - beginning of year                      | <u>10,769,585</u>           | <u>10,816,279</u>           |
| Cash and cash equivalents - end of year                            | <u><u>\$ 10,003,269</u></u> | <u><u>\$ 10,769,585</u></u> |
| Reconciliation of cash and cash equivalents to the balance sheets: |                             |                             |
| Cash   | \$ 4,062,905                | \$ 5,419,091                |
| Short-term investments   | 3,873,504                   | 2,707,732                   |
| Cash and cash equivalents in assets limited as to use:             |                             |                             |
| Held by trustee in accordance with bond indentures                 | 521,756                     | 500,095                     |
| Internally designated for future capital improvements              | <u>1,545,104</u>            | <u>2,142,667</u>            |
| Total cash and cash equivalents                                    | <u><u>\$ 10,003,269</u></u> | <u><u>\$ 10,769,585</u></u> |

The accompanying notes are an integral part of these statements.



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

**NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of significant accounting policies

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.

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 24:517, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Audits of Health Care Organizations*, published by the American Institute of Certified Public Accountants.

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

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.

Fund accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. 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**  
**NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these 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.

Investments and investment income

Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. These realized gains and losses flow through the Hospital's yearly activities.

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheets.

Allowance for doubtful accounts

An allowance for doubtful accounts is established based on management's assessment of collectibility, current economic conditions, and prior experience.



**HOSPITAL SERVICE DISTRICT No. 1 OF**  
**EAST BATON ROUGE PARISH, LOUISIANA**  
**d/b/a LANE MEMORIAL HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Inventories

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

Property and equipment

Property and equipment are stated 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.

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 yearly operations.

Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Financing costs are amortized over the period that the related obligation is outstanding.

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.

Charity care

The Hospital provides 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Risk management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employees injuries and illnesses; and natural disasters. 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 for employee health and dental benefits.

Income taxes

For income tax purpose, the Hospital is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes on related income has been included in the financial statements.

Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

2. Net patient service revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows:

- *Medicare* - inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge that include defined capital costs. These rates vary according to a patient classification system that is 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 paid for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and an audit by the Medicare fiscal intermediary.
- *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 an annual cost report by the Hospital and an audit thereof by the Medicaid fiscal intermediary.

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

**NOTES TO THE FINANCIAL STATEMENTS**

2. Net patient service revenue (continued)

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

Amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustments. Provisions for estimated retroactive adjustments under such programs are provided for in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Presented below is a summary of net patient service revenues for the years ended June 30, 2000 and 1999:

|   | <u>2000</u>          | <u>1999</u>          |
|---|----------------------|----------------------|
| Gross patient service revenue               | \$ 66,083,797        | \$ 61,976,681        |
| Less: Provision for contractual adjustments | <u>( 31,066,431)</u> | <u>( 28,890,042)</u> |
| Net patient service revenue                 | <u>\$ 35,017,366</u> | <u>\$ 33,086,639</u> |

3. Cash and investments

At June 30, 2000 and 1999, the carrying value of the Hospital's deposits were as follows:

|                         | <u>2000</u>          | <u>1999</u>          |
|-------------------------|----------------------|----------------------|
| Petty cash              | \$ 3,044             | \$ 3,000             |
| Demand deposit accounts | 4,154,965            | 6,108,759            |
| Certificates of deposit | 4,200,000            | 4,200,000            |
| Short-term investments  | <u>4,395,260</u>     | <u>3,207,826</u>     |
|                         | <u>\$ 12,753,269</u> | <u>\$ 13,519,585</u> |

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, 2000, the Hospital had \$8,778,043 in deposits (collected bank balances). Of these bank balances, \$300,000 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 (GASB category 2).

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**

**NOTES TO THE FINANCIAL STATEMENTS**

4. Property and equipment

Net property and equipment at June 30, 2000 and 1999 consisted of the following:

|   | <u>2000</u>           | <u>1999</u>           |
|---|-----------------------|-----------------------|
| Land and land improvements                    | \$ 1,569,045          | \$ 1,569,045          |
| Buildings                                     | 25,457,460            | 21,508,187            |
| Fixed equipment                               | 3,715,912             | 3,715,912             |
| Movable and other equipment                   | 16,647,689            | 16,245,847            |
| Physicians' office buildings<br>and equipment | <u>3,020,516</u>      | <u>2,257,416</u>      |
|   | 50,410,622            | 45,296,407            |
| Less: accumulated depreciation                | ( <u>21,823,728</u> ) | ( <u>20,585,847</u> ) |
|   | 28,586,894            | 24,710,560            |
| Construction-in-progress                      | <u>-</u>              | <u>1,297,896</u>      |
| Property and equipment, net                   | <u>\$ 28,586,894</u>  | <u>\$ 26,008,456</u>  |

Depreciation expense amounted to \$2,206,132 and \$2,087,014 during the years ended June 30, 2000 and 1999, respectively.

Additions to property and equipment included approximately \$124,500 and \$298,000 of capitalized interest during the years ended June 30, 2000 and 1999, respectively. Total interest costs incurred before recognition of these capitalized amounts were \$380,910 and \$401,835 during the years ended June 30, 2000 and 1999, respectively.

5. Long-term Debt

A summary of long-term debt at June 30, 2000 and 1999 is as follows:

|  | <u>2000</u>         | <u>1999</u>         |
|--|---------------------|---------------------|
| Hospital Revenue and Refunding Bonds (Series 1996);<br>interest rates ranging from 4.75% to 5.60%; due in<br>varying semi-annual installments through 02/01/11;<br>secured by the operating revenues of the Hospital and<br>additional property as defined in the trust indenture. | \$ 6,835,000        | \$ 7,285,000        |
| Less: current maturities   | ( <u>475,000</u> )  | ( <u>450,000</u> )  |
| Long-term debt, net of current maturities  | <u>\$ 6,360,000</u> | <u>\$ 6,835,000</u> |

The amortization expenses related to the bonds totalled \$4,404 and \$4,159 during the years ended June 30, 2000 and 1999, respectively.



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

**NOTES TO THE FINANCIAL STATEMENTS**

5. Long-term Debt (continued)

The outstanding bonds are scheduled to mature as follows:

| <u>Year ending</u><br><u>June 30,</u>           | <u>Amount</u>       |
|---|---------------------|
| 2001  | \$ 475,000          |
| 2002  | 500,000             |
| 2003  | 525,000             |
| 2004  | 550,000             |
| 2005  | 585,000             |
| Thereafter                                      | <u>4,200,000</u>    |
|   | 6,835,000           |
| Less: current portion of long-term debt         | ( 475,000)          |
| Total long-term debt, net of current maturities | <u>\$ 6,360,000</u> |

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 all of the applicable covenants at June 30, 2000.

6. Insurance programs

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 difference 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**

**NOTES TO THE FINANCIAL STATEMENTS**

7. Pension plan

The Hospital sponsors the Lane Memorial Hospital Retirement Plan (the Plan), a contributory defined benefit pension plan, in an attempt to provide retirement and death and disability benefits to substantially all of its employees.

**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 are eligible to join the plan on its next anniversary date. Employees 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. Plan benefits vest on a graded scale beginning at 25% for 5 years of service and increasing 5% per annum for each of the next 5 years and 10% per annum for each of the following 5 years.

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 Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

**Funding Policy.** Employees are required to contribute 1.00% of their monthly earnings up to \$400 plus 2.00% of their monthly earnings in excess of \$400. The Hospital's total payroll totalled \$17,590,917; \$16,768,499; and 15,367,340 during the years ended June 30, 2000, 1999, and 1998, respectively, and covered payroll (compensation paid by the Hospital to active employees covered by the Plan on which contributions to the Plan are based) totalled \$10,637,475; \$9,745,773; \$9,829,633 during the years ended June 30, 2000, 1999, and 1998, respectively.

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% determined as of the beginning of the Plan year. No contributions were made during the year ended June 30, 2000, the year ended June 30, 1999, or the year ended June 30, 1998.

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 as of June 30, 2000, 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.



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

**NOTES TO THE FINANCIAL STATEMENTS**

7. Pension plan (continued)

Assumptions used in accounting for the net periodic pension cost were as follows:

|  | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|-------------|-------------|-------------|
| Discount rates                                 | 8.00%       | 8.00%       | 8.00%       |
| Rates of increase in<br>compensation levels    | 4.00%       | 4.00%       | 4.00%       |
| Expected long-term rate<br>of return on assets | 8.00%       | 8.00%       | 8.00%       |

The following tables set forth the plan's funded status as of June 30, 2000, 1999, and 1998:

| Actuarial valuation date                                   | <u>06-30-00</u> | <u>06-30-99</u> | <u>06-30-98</u> |
|--|-----------------|-----------------|-----------------|
| Actuarial value of plan assets                             | \$ 13,652,959   | \$ 12,931,694   | \$ 12,414,796   |
| Actuarial accrued liability                                | 12,899,424      | 12,144,395      | 11,536,934      |
| Funded excess  | 753,535         | 787,299         | 877,862         |
| Funded ratio   | 105.84%         | 106.48%         | 107.61%         |
| Annual covered payroll                                     | 10,637,475      | 9,745,773       | 9,829,633       |
| Funded excess as a percentage<br>of annual covered payroll | 7.08%           | 8.08%           | 8.93%           |

The Hospital had no annual required contribution, annual pension cost or net pension obligation at June 30, 2000, 1999, or 1998, 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.



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

**NOTES TO THE FINANCIAL STATEMENTS**

8. 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 receivables from patients and third-party payors at June 30, 2000 and 1999, were as follows:

|  | <u>2000</u>     | <u>1999</u>     |
|--|-----------------|-----------------|
| Medicare   | 21.36%          | 20.22 %         |
| Medicaid   | 4.93            | 5.36            |
| Commercial insurance companies and<br>health maintenance organizations | 39.78           | 41.89           |
| Self-pay patients and other  | <u>33.93</u>    | <u>32.53</u>    |
|  | <u>100.00 %</u> | <u>100.00 %</u> |

9. Other operating revenues

Other operating revenues recognized during the years ended June 30, 2000 and 1999 consisted of the following:

|                                | <u>2000</u>         | <u>1999</u>         |
|--------------------------------|---------------------|---------------------|
| Contract services              | \$ 431,296          | \$ 656,027          |
| Satellite revenues             | 3,584,433           | 3,232,946           |
| Cafeteria revenues             | 337,856             | 301,667             |
| Physician services             | 116,116             | 107,870             |
| Other                          | <u>115,326</u>      | <u>112,794</u>      |
| Total other operating revenues | <u>\$ 4,585,027</u> | <u>\$ 4,411,304</u> |

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. Accordingly, no provision has been made in the financial statements related to these claims.



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

**NOTES TO THE FINANCIAL STATEMENTS**

11. Prior period adjustment

During the fiscal year ended June 30, 2000, the Hospital determined that its estimated third-party payor settlements had been calculated incorrectly for several periods prior to June 30, 2000.

Consequently, the 1998 and 1999 fund balances have been restated to adjust the balances of these accounts. These restatements resulted in increases in estimated third-party payor settlements and decreases in fund balance of \$735,000 and \$400,983 at June 30, 1999 and 1998, respectively and a reduction in net patient service revenues of approximately \$334,107 for the year ended June 30, 1999.

**SUPPLEMENTAL INFORMATION**





**Postlethwaite & Netterville**

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Associated Offices in Principal Cities of the United States  
[www.pncpa.com](http://www.pncpa.com)

**INDEPENDENT AUDITORS' REPORT**  
**ON SUPPLEMENTAL INFORMATION**

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

Our independent auditors' 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, 2000 and 1999, appears on page 1. 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 22, 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.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
August 28, 2000

**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, 2000 AND 1999**

|                       | <u>2000</u>     | <u>1999</u>     |
|-----------------------|-----------------|-----------------|
| Hubert C. Owens, M.D. | \$ 300          | \$ 275          |
| Nick Adams            | 275             | 275             |
| Jerry Boudreaux       | 300             | 275             |
| Etta Kay Hearn        | 250             | 300             |
| Catherine Pourciau    | 275             | 250             |
| Robert Williams, Jr.  | 225             | 275             |
| Steve Stein           | <u>275</u>      | <u>275</u>      |
|                       | <u>\$ 1,900</u> | <u>\$ 1,925</u> |





## Postlethwaite & Netterville

A Professional Accounting Corporation  
Associated Offices in Principal Cities of the United States  
[www.pncpa.com](http://www.pncpa.com)

August 28, 2000

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

We have audited the financial statements of Lane Memorial Hospital as of and for the year ended June 30, 2000, and have issued our report thereon dated August 28, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

During our audit, we became aware of certain matters that present opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding these matters. This letter does not affect our report dated August 28, 2000, on the financial statements of Lane Memorial Hospital or our report on the internal control and compliance with laws, regulations, and contracts, dated August 28, 2000.

### Policies and Procedures:

During our review of the Hospital's internal controls, we noted that several of the written policies and procedure manuals for the accounting and collections departments were outdated and not being followed.

The Hospital should evaluate the practices being followed by the accounting and collections departments and update its policies and procedures manuals. This will both improve the policies being followed by these departments and provide written documentation should any employees have questions.

### Unbilled Receivables:

During our review of patient accounts receivable, we noted a large amount of unbilled accounts receivable. As of June 30, 2000, unbilled patient accounts receivable totalled approximately \$4,600,000, which was approximately 34% of total patient receivables at June 30, 2000. The large majority of these receivables (approximately 38%) were for Medicare patients.

The Hospital should bill all of its patient receivables in a timely manner. Not only will this improve the Hospital's cash flow position, it has the potential to also improve collection efforts.



Terry G. Whittington, FACHE, *Chief Executive Officer*

A. Keith Heartsill, CPA, FHFMA, *Chief Financial Officer*

Jennifer S. Johnson, R.N., MSHSA, *Chief Nursing Officer*

Hubert C. Owen, Jr., M.D.,  
*Chairman*

Nick F. Adams  
Jerry Boudreaux

Etta Kay Hearn  
Catherine A. Pourciau, R.N., FNP-C

Steve Stein  
Robert Williams, Jr.

October 27, 2000

Mr. Daniel G. Kyle, CPA, Legislative Auditor  
State of Louisiana  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Re: Lane Memorial Hospital (Hospital Service District No. 1, East Baton Rouge Parish,  
Louisiana) - Year Ended June 30, 2000

Dear Mr. Kyle:

This letter is in conjunction with the audit of financial statements of Lane Memorial Hospital by Postlewaite & Netterville for FYE June 30, 2000 in order to provide a response to certain comments in the management letter to the Board of Commissioners dated August 28, 2000.

**Policies and Procedures:**

During our review of the Hospital's internal controls, we noted that several of the written policies and procedure manuals for the accounting and collections departments were outdated and not being followed.

The Hospital should evaluate the practices being followed by the accounting and collections departments and update its policies and procedures manuals. This will both improve the policies being followed by these departments and provide written documentation should any employees have questions.

**Response:** Management is in the process of evaluating and updating all noted policies.

6300 Main Street • Zachary, Louisiana 70791

PHONE (225) 658-4000 • WEB [www.lanehospital.org](http://www.lanehospital.org)

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**Unbilled Receivables:**

During our review of patient accounts receivable, we noted a large amount of unbilled accounts receivable. As of June 30, 2000, unbilled patient accounts receivable totalled approximately \$4,600,000, which was approximately 34% of total patient receivables at June 30, 2000. The large majority of these receivables (approximately 38%) were for Medicare patients.

The Hospital should bill all of its patient receivables in a timely manner. Not only will this improve the Hospital's cash flow position, it has the potential to also improve collection efforts.

**Response:** Management has identified three key areas holding up billing of accounts. Each of these are being addressed independently in order to reduce unbilled receivables.

**Allowance for Doubtful Accounts/Allowance for Contractual Reserves:**


During our review of the Hospital's allowances for doubtful accounts and contractual reserves for patient accounts receivable, we noted that the Hospital is recording its bad debt expense as a percentage of gross charges and is recording the remainder of the necessary allowance as contractual adjustments.

By changing its procedures to record bad debt expense based on a review of the outstanding accounts receivable rather than recording it as a percentage of gross charges, the Hospital will have more meaningful figures which it can use to analyze its collection efforts. This change in the method of recording bad debt expense will also result in the contractual adjustment number being more accurate. A more precise contractual adjustment figure will be very useful during the evaluation and negotiation of managed care contracts.

**Response:** Management is in the process of reviewing its methodology for calculation and posting of doubtful accounts and allowances for contractual reserves. The method will incorporate a change to book the allowance for doubtful accounts in a manner consistent with the allowance calculations for contractals.

*If I can be of further assistance, please advise.*

Sincerely,

  
A. Keith Heartsill, CPA, FHFMA  
Chief Financial Officer

AKH:sda  
CC: Terry G. Whittington, CEO  
Postlewaite & Netterville  
file