

FINANCIAL STATEMENTS

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1

d/b/a

LADY OF THE SEA GENERAL HOSPITAL

JUNE 30, 2012 AND 2011

FINANCIAL STATEMENTS

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1

d/b/a LADY OF THE SEA GENERAL HOSPITAL

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Chairman and Board of Commissioners
Lafourche Parish Hospital Service District No. 1
d/b/a Lady of the Sea General Hospital
Galliano, Louisiana

We have audited the financial statements of Lafourche Parish Hospital Service District No. 1, State of Louisiana, Parish of Lafourche, d/b/a Lady of the Sea General Hospital (a component unit of the Lafourche Parish Council) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lady of the Sea General 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 misstatements. 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.

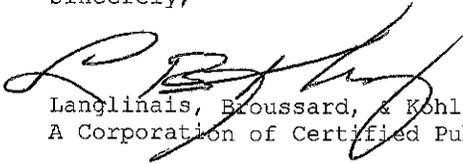
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lady of the Sea General Hospital as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Sincerely,



Langlinais, Broussard, & Kohlenberg
A Corporation of Certified Public Accountants

December 6, 2012

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

STATEMENT A

STATEMENT OF NET ASSETS

JUNE 30,

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,458,130	\$ 899,910
Investments	6,836,101	8,384,723
Accounts receivable, net of estimated uncollectibles of \$936,211 in 2012 and \$1,176,404 in 2011, respectively	6,290,824	6,216,509
Due from third party payors	1,450,143	595,656
Inventories	675,119	571,877
Prepaid expenses	297,032	307,198
Total Current Assets	17,007,349	16,975,873
ASSETS WHOSE USE IS LIMITED:		
By board for indenture reserves	164,871	159,763
Total Assets Whose Use is Limited	164,871	159,763
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment (net of accumulated depreciation)	7,408,009	7,429,791
OTHER ASSETS:		
Other receivables, net of estimated uncollectibles of \$ 123,050 for 2012	61,006	142,305
Unamortized bond costs	14,779	16,468
Other assets	246,559	240,835
Total other assets	322,344	399,608
TOTAL ASSETS	\$ 24,902,573	\$ 24,965,035

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

STATEMENT A

STATEMENT OF NET ASSETS

JUNE 30,

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 185,000	\$ 2,543,635
Credit balances	94,347	129,546
Accounts payable	707,030	477,352
Accrued salaries and related withholdings	1,016,445	860,431
Due to third party payors	250,000	554,618
Interest payable	44,728	455,080
Other current liabilities	40,965	68,513
	2,338,515	5,089,175
 Total Current Liabilities		
 LONG-TERM LIABILITIES:		
FEMA Community Disaster Loan	1,245,305	2,621,457
Bonds payable	1,940,000	2,125,000
	3,185,305	4,746,457
 Total Long-Term Liabilities		
TOTAL LIABILITIES	5,523,820	9,835,632
 NET ASSETS		
Invested in capital assets, net of related debt	5,283,009	5,134,794
Restricted net assets	164,871	159,763
Unrestricted net assets	13,930,873	9,834,846
TOTAL NET ASSETS	19,378,753	15,129,403
 TOTAL LIABILITIES AND NET ASSETS	 \$ 24,902,573	 \$ 24,965,035

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

STATEMENT B

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30,

	2012	2011
OPERATING REVENUES:		
Net patient service revenues	\$ 31,295,059	\$ 30,570,772
Other operating revenue	776,493	557,760
Total Operating Revenues	32,071,552	31,128,532
OPERATING EXPENSES:		
Salaries	12,667,230	11,717,701
Employee benefits	3,549,621	3,420,161
Purchased services	4,516,775	4,424,213
Supplies and other	7,957,837	7,290,127
Depreciation and amortization	851,547	999,050
Provision for doubtful accounts	3,156,147	4,646,135
Total Operating Expenses	32,699,157	32,497,387
INCOME (LOSS) FROM OPERATIONS	(627,605)	(1,368,855)
NON-OPERATING REVENUES (EXPENSES):		
Income on investments whose use is limited:		
Indenture agreement and board for indenture reserves	696	473
FEMA forgiveness of debt	-	1,681,541
Grant Income	3,208,956	176,201
Interest income	13,408	15,128
Interest expense	(156,860)	(263,058)
Taxes:		
Bond - restricted to bond retirement fund	349,826	347,462
Maintenance - net	1,460,523	1,433,097
Gain on disposal of assets	406	15,865
Total non-operating revenues (expenses)	4,876,955	3,406,709
CHANGE IN NET ASSETS	4,249,350	2,037,854
TOTAL NET ASSETS, BEGINNING	15,129,403	13,091,549
TOTAL NET ASSETS, ENDING	\$ 19,378,753	\$ 15,129,403

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

STATEMENT C

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on behalf of patients	\$ 31,997,234	\$ 31,733,737
Payments to suppliers	(20,355,965)	(16,508,763)
Payments to employees and for employee related costs	(12,755,656)	(12,755,656)
Net Cash Flow (used in) provided by Operating Activities	<u>(1,114,387)</u>	<u>2,469,318</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Ad valorem taxes - debt service	349,826	347,462
Ad valorem taxes - maintenance	1,460,523	1,433,095
Net Cash Provided by Non Capital Financing Activities	<u>1,810,349</u>	<u>1,780,557</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grant revenue	3,208,956	176,201
Interest paid on long-term debt	(156,860)	(263,058)
Repayment of long-term debt	(3,919,787)	(2,260,000)
Net Cash used in Capital and Related Financing Activities	<u>(867,691)</u>	<u>(2,346,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital asset	(828,075)	(828,357)
Proceeds from disposition of assets	406	15,865
Proceeds from sale of investments	1,548,622	-
Investment income	14,104	15,601
Purchase of investments	-	(109,835)
Net Cash Provided by (Used in) Investing Activities	<u>735,057</u>	<u>(906,726)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>563,328</u>	<u>996,292</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, INCLUDING \$159,763 AND \$84,699, LIMITED TO USE FOR 2012 AND 2011, RESPECTIVELY	<u>1,059,673</u>	<u>63,381</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING \$164,871 AND \$159,763 LIMITED TO USE FOR 2012 AND 2011, RESPECTIVELY	<u>\$ 1,623,001</u>	<u>\$ 1,059,673</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (627,605)	\$ (1,368,855)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation and amortization	851,547	999,050
Provision for bad debts	3,156,147	4,646,135
Gain on disposition of assets	-	(15,865)
Forgiveness of FEMA loan	-	1,681,541
Increase in receivables	(3,265,664)	(4,578,051)
Decrease (Increase) in due from third party payors	(1,159,105)	1,048,757
Decrease (Increase) in other receivables	81,299	156,704
Decrease (Increase) in inventories and prepaids	(93,076)	44,303
Decrease (Increase) in other assets	(5,724)	8,931
Increase (Decrease) in accounts payable and accrued expenses	(24,660)	(90,238)
Decrease in other current liabilities	(27,546)	(63,094)
Net cash used in operating activities	<u>\$ (1,114,387)</u>	<u>\$ 2,469,318</u>

The accompanying notes are an integral part of these financial statements

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Lafourche Parish Hospital Service District No. 1, State of Louisiana, d/b/a Lady of the Sea General Hospital (Hospital), is an acute care facility created pursuant to Louisiana Revised Statutes of 1950, Title 46, Chapter 10, and Ordinance No. 863 of Lafourche Parish Council adopted January 27, 1953. It is the Hospital's mission to provide its community with high quality care and education in a friendly, caring and professional manner.

The administration of the Hospital is governed by a Board of Commissioners consisting of five members appointed by the Lafourche Parish Council in accordance with the terms of office set forth in Louisiana Revised Statute 46:1053 and in Section 24:300 (C) of Sub-Chapter "G" of the Code of Ordinance of the Lafourche Parish Council.

As the governing authority of the parish, for reporting purposes, the Lafourche Parish Council is the financial reporting entity for Lafourche Parish. The financial reporting entity consists of (a) the primary government (Council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 14 established criteria for determining which component units should be considered part of the reporting entity for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include:

1. Appointing a voting majority of an organization's governing body, and
 - a. the ability of the Council to impose its will on that organization and/or
 - b. the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
2. An organization for which the Council does not appoint a voting majority but is fiscally dependent on the Council.
3. An organization for which the reporting entity's financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the Council appoints all of the members of the Hospital's governing board and has the ability to impose its will on the Hospital, the Hospital was determined to be a component unit of the Lafourche Parish Council. The accompanying financial statements present information only on the funds maintained by the Hospital and do not present information on the police jury, the general government services provided by that government unit, or the other governmental units that comprise the financial reporting entity.

Accounting Standards. The financial statements of the Hospital have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to 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 or contradict GASB pronouncements.

Proprietary Fund Accounting. The Hospital utilizes the proprietary fund method of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation, other arrangements under trust agreements, or with third-party payors.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(cont)

Assets Whose Use is Limited. Assets whose use is limited include assets set aside by the Board of Commissioners for future capital improvements and future indenture agreements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by trustees under indenture agreements and self-insurance trust agreements.

Inventory. Inventory is valued at the lower of cost or market using the first-in, first-out method.

Capital Assets. Capital assets are carried at cost or, if donated, at fair value at date of donation. Capital Assets are defined by the Hospital as assets with an initial individual cost of more than \$5,000 and an initial useful life of three years or greater. Depreciation is computed by the straight-line method over the assets' estimated useful lives generally ranging from 3 to 40 years.

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

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

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

Unrestricted Net Assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

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

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. Interest earned on these borrowed funds, before the funds are spent on the construction of the capital assets, is also capitalized.

Investments. Investments, including assets limited as to use, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31,

Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Investments in equity securities with readily determinable fair values and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the balance sheets. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment income, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in non-operating income. Investments in associated companies are accounted for by the equity method of accounting under which the Hospital's share of the net income of the associated companies is recognized as income in the Hospital's statement of activities and added to the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. See the disclosure regarding Net Patient Service Revenue below for further discussion of significant estimates involving the revenue recognition methods of the Hospital.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(cont)

Net Patient Service Revenue and Related Receivables. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The Hospital provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Patient receivables are carried at original charge amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a timely basis. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Patient receivables are written off when deemed uncollectible. Recoveries of patient receivables previously written off are recorded when received.

Non-Direct Response Advertising. The Hospital expenses advertising costs as incurred.

Compensated Absences. Employees of the Hospital are entitled to paid time off depending on their length of service and other factors. Accrued compensated absences included as a component of accrued salaries and benefits on the Hospital's Statement of Net Assets for June 30, 2012 and 2011, was \$ 424,847 and \$ 401,399, respectively.

Grants and Contributions. From time to time, the Hospital receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all of the eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Unamortized Bond Costs. Unamortized bond costs represent the cost of debt issuance and are being amortized over the term the related debt is outstanding.

Operating Revenues and Expenses. The Hospital's Statement of Activities distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

NOTE 2: MAJOR SOURCE OF REVENUE

The Hospital participated in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Hospital derived approximately 47% and 37% of its gross patient service revenue for June 30, 2012 and 2011, respectively, from patients covered by the Medicare and Medicaid programs. Included in net patient service revenues for June 30, 2012 and 2011, is additional reimbursement for Medicaid Uncompensated Care Adjustments of \$951,695 and \$1,414,774, respectively. This amount is subject to audit by the State of Louisiana.

NOTE 3: NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from 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 a future period as final settlements are determined.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3: NET PATIENT SERVICE REVENUE (cont)

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

A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is paid for inpatient and outpatient services rendered to Medicare program beneficiaries under cost based reimbursement methodology. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The retrospectively 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. The Hospital files a year end cost report with Medicare to determine final settlement. This cost report is subject to audit by the Medicare fiscal intermediary.

The Hospital was paid for inpatient psychiatric care services rendered to Medicare program beneficiaries under cost reimbursement methodologies through December 2004 and is subject to cost report settlement. The Hospital was paid under a blend of prospectively determined rates-per-discharge and cost based reimbursement thereafter. This cost report is also subject to audit.

The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Medicaid - Inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2009.

The Louisiana Legislature, through the Healthcare Reform Act of 2007 and Act 1 of 2010, tasked the Department of Health and Hospitals to create a new system of care. In response, the Louisiana Department of Health and Hospitals (DHH) reformed its reimbursement methodology for Medicaid patients from a fee-for-service system to the use of a Coordinated Care Network (CCN).

During 2011, the Louisiana Department of Health and Hospitals enabled certain third-party payor companies to contract with providers under the Coordinated Care Network methodology. The hospital is currently considering contracts and must be enrolled and ready to participate by April 1, 2012. The hospital anticipates an increase in the number of days between filing and collection of Medicaid claims during transition. Other factors, such as the effects on the amount of Medicaid patients the hospital will service and impact on hospital Medicaid revenues and reimbursement are not known at this time. It is not known what other financial impacts the Coordinated Care Network will have on the hospital, and Medicaid providers as a whole.

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, by major category, is as follows at June 30, 2012:

	Asset Life In Years	Beginning Balance	Additions	Deletions	Ending Balance
Land		\$ 387,493	\$ -	\$ -	\$ 387,493
Land Improvements	10 - 20	263,858	-	-	263,858
Building	10 - 40	11,049,158	-	-	11,049,158
Fixed Equipment	15 - 20	1,398,020	-	-	1,398,020
Major Movable Equipment	5 - 20	<u>12,219,708</u>	<u>1,031,378</u>	<u>(35,171)</u>	<u>13,215,915</u>
Total Cost		25,318,237	1,031,378	(35,171)	26,314,444
Less: Accumulated Depreciation		<u>18,092,648</u>	<u>849,858</u>	<u>35,171</u>	<u>18,907,335</u>
		7,225,589	181,520	-	7,407,109
Construction in Progress		<u>204,203</u>	-	<u>203,303</u>	<u>900</u>
Net Property, Plant, and Equipment		<u>\$ 7,429,792</u>	<u>\$ 181,520</u>	<u>\$ 203,303</u>	<u>\$ 7,408,009</u>

NOTE 5: LONG-TERM DEBT

Long-term debt at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
General obligation bonds, dated April 1, 2001, bearing interest ranging from .10% to 5.15%, maturing serially on March 1 of each year beginning in 2002, with interest payable March 1 and September 1 of each year beginning in 2001, with the final maturity on March 1, 2021.	\$2,125,000	\$2,295,000
Notes payable Community Disaster Loan dated August 8, 2006, original amount of \$566,365, bearing interest at 3.00% per annum, maturing on August 7, 2011:	-	566,365
Notes payable Community Disaster Loan dated August 28, 2006, original amount of \$1,807,270, bearing interest at 2.93% per annum, maturing on August 27, 2011:	-	1,807,270
Notes payable Community Disaster Loan dated April 3, 2009, original amount of \$2,621,457, bearing interest at 1.875% per annum, maturing on April 2, 2014:	<u>1,245,305</u>	<u>2,621,457</u>
Total debt	3,370,305	7,290,092
Less current portion	<u>185,000</u>	<u>2,543,635</u>
Long-term portion	<u>\$3,185,305</u>	<u>\$4,746,457</u>

Scheduled repayments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 185,000	\$ 126,744	\$ 311,744
2014	1,440,305	112,726	1,553,031
2015	205,000	86,100	291,100
2016	220,000	76,465	296,465
2017	235,000	66,015	301,015
Remaining	<u>1,085,000</u>	<u>142,645</u>	<u>1,227,645</u>
Total	<u>\$ 3,370,305</u>	<u>\$ 610,695</u>	<u>\$ 3,981,000</u>

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 6: CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables (net of allowances) from patients and third-party payors at June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Medicare	26%	25%
Medicaid	14%	9%
Commercial and other third party payors	34%	39%
All others	<u>26%</u>	<u>27%</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 7: CASH FLOWS SUPPLEMENTAL INFORMATION

Cash and cash equivalents as of June 30, 2012 and 2011, respectively, consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	<u>\$ 1,623,001</u>	<u>\$1,059,673</u>

Total interest paid by the Hospital was \$567,212 and \$119,275 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8: COMMITMENTS

Operating Leases. The Hospital leases medical equipment and medical office space under operating lease agreements. The total rent expense for equipment leased under operating leases for June 30, 2012 and 2011, was \$863,010 and \$890,295, respectively.

Employment Contracts. The Hospital has employment contracts with multiple physicians, which expire at varying terms through 2012. These agreements generally provide for a base salary or hourly rate in return for services provided, and incentive compensation based on practice income as defined in the individual agreements. The agreements stipulate the circumstances under which termination may occur. The terms of some of the agreements, however, stipulate that in the case of termination without cause, the Hospital is obligated to provide reduced base salary payments for varying monthly periods as is defined in the agreements.

NOTE 9: DEFERRED COMPENSATION PLAN AND PENSION PLAN

The Hospital has a plan where qualifying employees may defer certain amounts of their salary. The Hospital incurs no cost under this plan.

Effective November 1, 1995, all full-time employees who had one year of continuous service are eligible to participate in the Hospital's retirement plan. Prior to November 1, 1995, full-time employees were required to have three years of continuous service in order to be eligible for the plan. The plan is a defined contribution, money purchase plan. The plan is voluntary and there is no requirement for employees to contribute to the plan. Eligible employees may contribute up to 16% of their annual salary during their first year in the plan and 20% thereafter. Part-time employees can participate in the plan, but are limited to only employee contributions. Employees are 100% vested at the time of their enrollment.

The Hospital funds the plan based on a percentage of eligible employees' annual salary. This percentage is determined by the Board, and is currently 3.25%. There is no prior funding required. The Hospital's contribution to the plan for June 30, 2012 and 2011, was \$324,330 and \$344,649, respectively.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 10: CONTINGENCIES AND RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters.

The Hospital is a member of two separate trust funds established by the Louisiana Hospital Association that encompass self-insurance of (1) Hospital professional liability and comprehensive general liability and (2) Statutory workers' compensation. The Hospital continues to carry commercial insurance for all other risks of loss.

The Hospital participates in the State of Louisiana patient compensation fund (the fund). The fund provides malpractice coverage to the Hospital for claims in excess of \$100,000 up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. The management of the Hospital has no reason to believe that the Hospital will be prevented from continuing its participation in the fund.

Professional Liability. The Hospital's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are re-determined utilizing actual losses of the Hospital. The trust fund presumes to be a "grantor trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has included these allocations and equity amounts assigned to the Hospital by the trust fund in its financial statements.

Workmen's Compensation. The Hospital also participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not practical to estimate the amount of additional assessments, if any, and the costs associated with any such assessments are treated as period expenses at the time they are assessed. The trust fund presumes to be a "grantor trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has included these allocations and equity amounts assigned to the Hospital by the trust fund in its financial statements.

Self-Insurance for Health Insurance. During the fiscal year ended June 30, 2004, the Hospital elected to self-insure employee and eligible dependent health claims. The self-insured claims are processed through a plan administrator. The Hospital's self insured plan has stop-loss insurance coverage for claims in excess of \$35,000 per individual per plan year and \$35,000 in the aggregate for claims in excess of the individual stop-loss. Prior to this election, the Hospital maintained commercial insurance coverage for health claims.

Laws and Regulations. The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS (cont)

Assets limited as to use: These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Hospital's financial instruments at June 30, 2012 and 2011, are as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$1,458,1303	\$1,458,130	\$ 899,910	\$ 899,910
Investments	\$6,836,101	\$6,836,101	\$8,384,723	\$8,384,723
Assets limited as to use	\$164,871	\$164,871	\$159,763	\$159,763
Accounts payable & Accrued expense	\$1,809,168	\$1,809,168	\$1,861,376	\$1,861,376
Estimated third party settlements	\$1,200,143	\$1,200,143	\$401,958	\$401,958
Long-term debt	\$3,185,305	\$3,185,305	\$4,746,457	\$4,746,457

NOTE 12: BANK DEPOSITS AND INVESTMENTS

State statutes authorize the Hospital to invest in obligations of the U.S. Treasury, certificates or other obligations of the United States of America, and time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. At June 30, 2012 and 2011, the Hospital had bank balances as follows:

	<u>2012</u>	<u>2011</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by securities held by the pledging financial Institutions' trust department in the hospital's name	3,629,172	2,276,777
	<u>\$3,879,172</u>	<u>\$ 2,526,777</u>
Carrying Value	<u>\$1,915,515</u>	<u>\$ 1,640,082</u>

For June 30, 2012 and 2011, respectively, investment income and gains on assets limited as to use, cash equivalents, and other investments are comprised of the following:

Interest Income	\$ 696	\$ 473
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Investments consist of certificates of deposit with financial institutions, U.S. Treasury obligations, and the Louisiana Asset Management Pool (LAMP). The fair value for these investments is not materially different from its reported amounts. Investments are categorized into three categories of credit risk:

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 12: BANK DEPOSITS AND INVESTMENTS (cont)

At year end, the Hospital's investment balances were as follows:

	<u>Category 2</u>	<u>Carrying Market Amount</u>	<u>Value</u>
Investments	\$ 6,836,101	\$ 6,836,101	\$6,836,101

NOTE 13: ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use at June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Under Indenture Agreement	\$ 164,871	\$ 159,763
Total	<u>\$ 164,871</u>	<u>\$ 159,763</u>

NOTE 14: COMMUNITY DISASTER LOAN

On January 18, 2006, the Hospital was approved for a FEMA Community Disaster Loan in the amount of \$2,100,000 maturing on February 7, 2011. This loan was part of FEMA's Special Community Disaster Loan Program. On August 6, 2006, the Hospital was approved for an additional \$ 566,365 due August 7, 2011, on August 27, 2006, \$ 1,807,270 due August 27, 2011, and on July 17, 2010, \$2,621,457 due April 2, 2014. On November 12, 2010, the Hospital was notified by FEMA that a portion of their loan would be forgiven. Of the original \$2,100,000 loan, \$1,491,394 of debt plus \$190,147 of interest was forgiven and recorded as non-operating income for the year ended June 30, 2011.

NOTE 15: INVESTMENT IN LOUISIANA ASSET MANAGEMENT POOL

The Louisiana Asset Management Pool (LAMP) is an investment pool established as a cooperative endeavor to enable public entities of the State of Louisiana to aggregate funds for investment. It is administered by Louisiana Asset Management Pool, Incorporated, a nonprofit corporation, which is managed by the Treasurer of the State of Louisiana. At year end, investments in LAMP had a market value of \$6,836,101.

NOTE 16: CHARITY CARE

The Hospital provides services without charge or at amounts less than its rates to patients who meet the criteria of its charity care policy. The criterion for charity care considers items such as family income, net worth, extent of financial obligations for healthcare services, etc. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported in revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges forgone, based on established rates, were approximately \$510,544 and \$521,157 for the years ended June 30, 2012 and 2011, respectively.

Management estimates that approximately \$250,056 and \$236,927 of costs were related to charity care for the years ended June 30, 2012 and 2011, respectively. This estimate is based on a ration of total cost to gross patient charges applied to gross uncompensated charges associated with providing care to charity patients.

NOTE 17: SUBSEQUENT FINDINGS

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through December 6, 2012, the date the financial statements were available to be issued.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO.1
d/b/a LADY OF THE SEA GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 18: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The amendments to the codification will require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities will be required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments will also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The hospital will be subject to these amendments for fiscal years ending after December 15, 2012, with early adoption permitted. The amendments will be applied retrospectively for all prior periods presented.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 1

SCHEDULE OF REVENUES

JUNE 30,

	2012	2011
Med/Surg	\$ 3,470,102	\$ 3,787,791
ICU	325,650	405,600
Laboratory	13,656,511	11,501,065
Anesthesia	1,188,137	991,586
Pharmacy	6,757,102	5,278,356
Radiology	13,948,162	14,539,968
Dialysis	3,455,600	2,640,281
Emergency Room	7,161,504	7,232,361
EEG	3,284,739	3,175,991
EKG	424,764	446,078
Operating Room	2,222,381	1,727,560
Observation	651,252	437,066
Home Health	839,323	830,504
Clinics	8,042,023	7,702,611
Therapy	705,032	511,397
Central Supply	630,234	633,589
GROSS PATIENT SERVICE REVENUE	66,762,516	61,841,804
Less: Contractual Adjustments	36,419,152	32,685,806
Net Patient Service Revenue before Uncompensated Care	30,343,364	29,155,998
Medicaid Uncompensated Care	951,695	1,414,774
NET PATIENT SERVICE REVENUE	\$ 31,295,059	\$ 30,570,772

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 2

OTHER OPERATING REVENUE

JUNE 30,

	<u>2012</u>	<u>2011</u>
Shared Urology Income	\$ 166,695	\$ 129,007
Miscellaneous	442,725	285,304
Rental Income - Clinics	51,951	51,937
Employee Meals	46,559	45,053
Medical Records Revenue	28,927	29,770
Rebate Income	32,628	9,067
Guest Meals	<u>7,008</u>	<u>7,622</u>
Total other operating revenue	<u>\$ 776,493</u>	<u>\$ 557,760</u>

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 3

SALARIES BY DEPARTMENT

FOR THE YEAR ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>
Anesthesia	\$ -	\$ 5,370
Cardiopulmonary	363,132	335,499
Rural Health Clinics	600,979	605,965
Freestanding Health Clinics	1,649,016	1,593,920
LOSMS Shared Expenses	823,432	754,648
Emergency Room	980,855	883,340
Home Health	376,395	364,696
Home Health Nursing Services	65,061	62,183
ICU	275,746	303,413
Laboratory	645,505	641,524
Medical Clinic	246,405	236,334
Medical/Surgical	1,366,580	1,198,713
ER Doctors	463,638	345,586
Operating Room	525,780	442,811
Pharmacy	421,911	313,423
Radiology	740,614	671,818
Renal Dialysis	247,736	264,072
Ultrasound	17,454	13,365
Social Services	71,076	68,743
Administration	480,760	449,067
Business Office	417,934	419,706
Dietary	154,355	150,133
Education - Infection Control	69,848	68,450
Flex Pool - Emergency Room	87,422	42,552
General Accounting	130,276	128,753
Housekeeping	241,437	216,430
Human Resource and Risk Management	125,486	125,828
Information Technology	185,128	155,285
Laundry	37,327	36,161
Learning Center	91,431	86,216
Maintenance	195,266	192,768
Medical Records	264,209	261,889
Public Relations	107,790	104,490
Purchasing	85,645	67,836
Utilization Review	111,601	106,714
Total Salaries	\$ 12,667,230	\$ 11,717,701

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 4

EMPLOYEE BENEFITS

FOR THE YEAR ENDED JUNE 30,

Earned time off	\$ 1,182,685	\$ 1,157,907
Social security	980,120	895,683
Pension expense	324,330	344,649
Life insurance	15,605	24,617
Disability insurance	63,176	89,674
Hospitalization	838,418	781,781
Workers' compensation	108,731	107,611
Other	<u>36,556</u>	<u>18,239</u>
 Total employee benefits	 <u>\$ 3,549,621</u>	 <u>\$ 3,420,161</u>

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 5

PURCHASED SERVICES BY DEPARTMENT

FOR THE YEAR ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>
Medical surgical	\$ 130,266	\$ 211,292
Dialysis	56,874	48,579
ICU	5,686	25,870
Cardiology	143,750	118,750
Lithotripsy	6,100	28,245
Emergency room	703,224	850,181
Laboratory	249,943	193,569
Radiology	14,392	16,260
X-ray	371,724	421,267
Anesthesia	364,518	346,263
Cardiopulmonary	159,463	218,509
Rural health clinics	779,867	509,980
Medical clinic	514	-
Pharmacy	16,380	-
Operating room	96,580	171,484
Outpatient rehab	244,648	123,511
Speech therapy	92,038	56,772
Home health	69,513	74,864
Housekeeping	49,062	3,472
Medical records	72,380	69,600
Business office	735,744	606,180
Administration	150,509	325,967
Utilization management	3,600	3,598
Total Purchased Services	<u>\$ 4,516,775</u>	<u>\$ 4,424,213</u>

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 6

SUPPLIES AND OTHER EXPENSES BY DEPARTMENT

FOR THE YEAR ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>
Anesthesia	\$ 18,292	\$ 1,173
Cardiopulmonary	176,007	131,685
Rural Health Clinics	471,945	410,085
Freestanding Health Clinics	624,270	625,921
Operating Room	333,913	268,317
Emergency Room	167,467	169,714
Medical Clinic	20,127	16,651
Laboratory	622,189	628,021
EEG	2,826	2,454
Radiology	583,720	577,123
Pharmacy	1,120,627	780,741
Home Health	105,876	88,673
Outpatient Rehab	21,021	15,089
Social Services	2,030	2,865
Dialysis	314,902	434,701
ICU	12,160	19,330
Administration	1,551,986	1,434,642
Education	6,528	7,735
Medical/Surgical	172,836	134,771
Utilization Management	5,052	4,788
Central Supply	-	7,704
Purchasing	166,964	225,475
Blood Bank	141,817	158,992
Dietary	209,373	174,264
Maintenance	644,255	547,704
Housekeeping	77,064	68,242
Laundry	43,249	34,212
Medical Records	35,758	36,877
Business Office	28,963	32,379
Data Processing	-	3,708
General Accounting	48,186	47,696
Human Resources	28,683	28,411
Public Relations	130,649	116,763
Information Technology	69,102	53,221
	<u>\$ 7,957,837</u>	<u>\$ 7,290,127</u>
Total Supplies and other		

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
D/B/A LADY OF THE SEA GENERAL HOSPITAL

SCHEDULE 7

GOVERNING BOARD EXPENSES

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

The Board of commissioners receive no compensation for serving on the Board.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Hospital Service District No. 1
Parish of Lafourche
Galliano, Louisiana

We have audited the financial statements of Hospital Service District No.1 Parish of Lafourche, d/b/a Lady of the Sea General Hospital (The Hospital) a component unit of the Lafourche Parish Police Jury, State of Louisiana, as of and for the years ended June 30, 2012 and 2011, respectively, and have issued our report thereon dated December 6, 2012.

We conducted our audit in accordance with generally accepted auditing standards of the United States 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 of the financial statements of the hospital as of and for the year ended June 30, 2012 and 2011, respectively, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all deficiencies described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all deficiencies described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be significant deficiencies.

COMPLIANCE

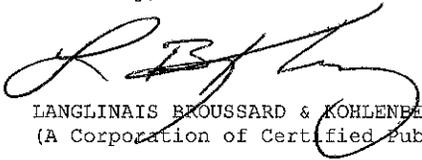
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We did not audit the Hospital's responses and, accordingly, we express no opinion on it.

This report is intended for the information of the Hospital Service District No. 1 Parish of Lafourche 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.

We acknowledge with appreciation the courtesies extended our representatives during the audit.

Sincerely,



LANGLINAIS BROUSSARD & KOHLENERG
(A Corporation of Certified Public Accountants)

December 6, 2012

HOSPITAL SERVICE DISTRICT NO. 1
d/b/a LADY OF THE SEA GENERAL HOSPITAL
PARISH OF LAFOURCHE
GALLIANO, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN

For the year ended June 30, 2012

We have audited the financial statements of Lafourche Parish Hospital Service District No. 1, d/b/a Lady of the Sea General Hospital, a component unit of the Lafourche Parish Council, State of Louisiana, as of and for the years ended June 30, 2012 and 2011, respectively, and have issued our report thereon dated December 6, 2012.

We conducted our audit in accordance with generally accepted auditing standards of the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audit of the financial statements as of June 30, 2012 and 2011, respectively, resulted in an unqualified opinion.

Section I: Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control

Material Weaknesses: Yes
Significant Deficiencies: Yes

Compliance:
Compliance Material to Financial Statements Yes

Section II: Financial Statement Findings

A - Issues of Noncompliance

Finding 2012-1 Outstanding Checks

Condition and Criteria: The Hospital has outstanding checks that are several years old.

Effect: This could be a violation of the Louisiana Unclaimed Property Statutes (Louisiana Revised Statutes 9:151-181), which require businesses and others to review their records each year to determine whether they are in possession of any monies, funds, securities, or other intangible personal property that have been unclaimed for the required dormancy period, and to make an annual report of their findings.

Recommendation: We recommend the hospital perform a comprehensive review of their records regarding outstanding checks in order to determine if they are unclaimed property, and if so, follow the proper steps to remit them to the State of Louisiana.

Management Response: We will do a thorough review of outstanding checks as per state policy and will be returning all outstanding checks over one year old to the state.

B- Significant Deficiencies and Material Weaknesses

Finding 2012-2 Preparation of GAAP Financial Statements

Condition and Criteria: The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the Hospital's internal control structure, and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not

HOSPITAL SERVICE DISTRICT NO. 1
d/b/a LADY OF THE SEA GENERAL HOSPITAL
PARISH OF LAFOURCHE
GALLIANO, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN

For the year ended June 30, 2012

otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Effect: This represents a material weakness in the hospital's internal control system.

Recommendation: Financial reports should be prepared in accordance with accounting principles generally accepted in the United States and with standards issued by the Governmental Accounting Standards Board.

Management Response: Due to the small size of our accounting staff and limited financial funding, we depend on the auditing firm of Langlinais, Broussard & Kohlenberg to prepare our year end financials and cost reports.

Finding 2012-3 Segregation of Duties

Condition and Criteria: The hospital has several employees whose duties are not segregated.

Effect: This represents a material weakness in the hospital's internal control system.

Recommendation: The authorization of transactions and decisions, recording of those transactions, reconciliation of those transactions, and custody of assets related to those transactions should be separate functions performed by different individuals.

Management Response: The size of our current accounting staff along with each individual's duties limits our ability to segregate the duties of the staff.

Finding 2012-4 Vacations

Condition and Criteria: Continuous vacations are not mandatory for key employees.

Effect: This represents a material weakness in the hospital's internal control system.

Recommendation: Employees in key positions should be required to take a continuous one-week vacation per year with another employee cross-trained to perform their duties.

Management Response: With our accounting staff size, we feel mandatory vacations would put an unnecessary burden on the accounting department.

Section III: Management Letter Items

There are no management letter items at June 30, 2012.

HOSPITAL SERVICE DISTRICT NO. 1
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d/b/a LADY OF THE SEA GENERAL HOSPITAL
PARISH OF LAFOURCHE
GALLIANO, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2012

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

Finding 2011-1 Preparation of GAAP Financial Statements

The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the Hospital's internal control structure, and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Status: Unresolved.

Finding 2011-2 Segregation of Duties

The hospital has several employees whose duties are not segregated.

Status: Unresolved.

Finding 2011-3 Vacations

Continuous vacations are not mandatory for key employees.

Status: Unresolved.