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Financial Report

St. Anne General Hospital

September 30, 2001

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Release Date 4/3/02

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St. Anne General Hospital

September 30, 2001 and 2000

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FINANCIAL SECTION



Bourgeois Bennett

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners,
Hospital Service District No. 2,
Lafourche Parish, Louisiana.

We have audited the accompanying balance sheets of St. Anne General Hospital (Hospital Service District No. 2 of the Parish of Lafourche, State of Louisiana), a component unit of the Lafourche Parish Council, as of September 30, 2001 and 2000, and the related statements of operations, changes in fund balances, and cash flows for the years then ended. These general-purpose financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of St. Anne General Hospital as of September 30, 2001 and 2000, and the results of its operations, changes in its fund balances, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2001, on our consideration of St. Anne General Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 audits.

Our audits were performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The supplementary information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of St. Anne General Hospital. Such information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
December 5, 2001.

BALANCE SHEETS

St. Anne General Hospital

September 30, 2001 and 2000

ASSETS

	<u>2001</u>	<u>2000</u>
Current		
Cash	\$ 1,395,417	\$ 353,373
Certificates of deposit	270,535	558,049
Assets limited as to use	380,870	110,000
Patient accounts receivable, net of estimated uncollectibles and allowances (2001 - \$6,206,021; 2000 - \$4,783,550)	5,744,274	5,201,903
Inventories	577,079	511,870
Prepaid expenses	125,432	82,021
Other	85,593	81,744
Total current assets	<u>8,579,200</u>	<u>6,898,960</u>
Assets Limited As To Use (Internally Designated)		
Board-Designated Plant, Equipment and Expansion Fund	6,413,057	9,712,199
Debt Service Funds	233,839	313,387
Unamortized bond issue costs	74,206	79,683
	<u>6,721,102</u>	<u>10,105,269</u>
Less amount required to meet current obligations	<u>(380,870)</u>	<u>(110,000)</u>
Total assets limited as to use	<u>6,340,232</u>	<u>9,995,269</u>
Property and Equipment		
Construction in progress	346,691	593,514
Land and improvements	340,776	340,776
Buildings	9,308,298	8,624,204
Equipment	9,782,826	8,737,791
Capital lease equipment	317,264	317,264
	<u>20,095,855</u>	<u>18,613,549</u>
Less accumulated depreciation	<u>(13,658,727)</u>	<u>(13,175,592)</u>
Net book value	<u>6,437,128</u>	<u>5,437,957</u>
Other		
Investment in Bayou Labs of Louisiana, L.L.C.	<u>499,959</u>	<u>617,475</u>
Total assets	<u>\$ 21,856,519</u>	<u>\$ 22,949,661</u>

See notes to financial statements.

LIABILITIES AND FUND BALANCE

	<u>2001</u>	<u>2000</u>
Current		
Current maturities of bonds payable	\$ 380,870	\$ 110,000
Current maturities of capital lease obligations	67,512	63,719
Accounts payable	788,512	722,583
Accrued expenses	1,198,107	1,736,727
Estimated third-party payor settlements - Medicare and Medicaid	<u>220,500</u>	<u>372,000</u>
Total current liabilities	<u>2,655,501</u>	<u>3,005,029</u>
 Long-Term Debt, net of current maturities		
Bonds payable	3,739,130	4,120,000
Capital lease obligations	<u>59,321</u>	<u>126,833</u>
Total long-term debt	<u>3,798,451</u>	<u>4,246,833</u>
 Commitments and Contingencies (Notes 3, 11 and 12)	<u>-</u>	<u>-</u>
Total liabilities	6,453,952	7,251,862
 Fund Balance	<u>15,402,567</u>	<u>15,697,799</u>
Total liabilities and fund balance	<u>\$ 21,856,519</u>	<u>\$ 22,949,661</u>

STATEMENTS OF OPERATIONS**St. Anne General Hospital**

For the years ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenues		
Net patient service revenues	\$ 19,688,141	\$ 19,877,056
Equity in earnings of Bayou Labs of Louisiana, L.L.C.	62,484	171,173
Other operating revenues	796,923	483,969
	<u>20,547,548</u>	<u>20,532,198</u>
Expenses		
Salaries and wages	8,967,838	8,458,639
Professional services	3,633,609	3,720,353
Supplies and other expenses	6,138,045	5,745,369
Interest	192,341	70,239
Provision for bad debts	1,504,916	1,384,007
Depreciation	968,040	857,639
	<u>21,404,789</u>	<u>20,236,246</u>
Operating income (loss)	<u>(857,241)</u>	<u>295,952</u>
Nonoperating Income (Expense)		
Income on investments limited as to use:		
By Board for capital improvements	406,374	409,173
Debt service	13,635	16,190
Gain (loss) on disposition of assets	(2,906)	5,697
Other investment income	56,119	64,483
Tax proceeds for maintenance and operations	99,138	97,640
Taxes dedicated for debt service	224	98,285
Bond interest and agent fees	(10,575)	(14,595)
Unrestricted gifts	-	2,000
	<u>562,009</u>	<u>678,873</u>
Excess Of Revenues Over Expenses (Expenses Over Revenues)	<u>\$ (295,232)</u>	<u>\$ 974,825</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FUND BALANCE**St. Anne General Hospital**

For the years ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 15,697,799	\$ 14,722,974
Excess of revenues over expenses (expenses over revenues)	<u>(295,232)</u>	<u>974,825</u>
Balance, end of year	<u>\$ 15,402,567</u>	<u>\$ 15,697,799</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS**St. Anne General Hospital**

For the years ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash Flows From Operating Activities		
Operating income (loss)	\$ (857,241)	\$ 295,952
Interest expense considered capital financing activity	192,341	70,239
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	968,040	857,639
Bond issue cost amortization	5,476	1,840
Equity in earnings of Bayou Labs of Louisiana, L.L.C.	(62,484)	(171,173)
Decrease (increase) in assets:		
Net receivables	(542,371)	(1,554,561)
Inventories	(65,209)	(28,155)
Prepaid expenses	(43,411)	(8,499)
Other current assets	(3,849)	(35,580)
Increase (decrease) in liabilities:		
Accounts payable	65,929	345,321
Accrued expenses	(538,620)	622,903
Estimated third-party payor settlements	(151,500)	(58,010)
Net cash provided by (used in) operating activities	<u>(1,032,899)</u>	<u>337,916</u>
Cash Flows From Noncapital Financing Activities		
Ad valorem taxes	99,362	195,925
Other	-	2,000
Net cash provided by noncapital financing activities	<u>99,362</u>	<u>197,925</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of property and equipment	(1,977,595)	(1,397,750)
Proceeds from disposition of asset	2,000	15,513
Revenue bond proceeds	-	4,000,000
Principal payments of bonds payable	(110,000)	(105,000)
Principal payments under capital lease obligations	(63,719)	(110,435)
Interest paid on long-term debt	(202,914)	(84,834)
Net cash provided by (used in) capital and related financing activities	<u>(2,352,228)</u>	<u>2,317,494</u>

**Exhibit D
(Continued)**

	2001	2000
Cash Flows From Investing Activities		
(Increase) decrease in certificates of deposit	287,514	(558,049)
(Increase) decrease in assets limited as to use	3,384,167	(3,450,682)
Interest on investments	476,128	489,846
Cash distributions received from Bayou Labs of Louisiana, L.L.C.	180,000	-
Net cash provided by (used in) investing activities	4,327,809	(3,518,885)
Net Increase (Decrease) In Cash	1,042,044	(665,550)
Cash		
Beginning of year	353,373	1,018,923
End of year	\$ 1,395,417	\$ 353,373

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

St. Anne General Hospital

September 30, 2001 and 2000

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Reporting Entity

The Hospital is owned and operated by Hospital Service District No. 2 of the Parish of Lafourche, State of Louisiana (a nonprofit corporation organized by the Lafourche Parish Council). The Lafourche Parish Council appoints members to the Hospital Board of Commissioners, which in turn exercises control over all administrative functions with respect to the operation of the Hospital.

Based on the significant control that the Lafourche Parish Council (the Parish) possesses, the Hospital is deemed to be a component unit of the Parish. The accompanying component unit financial statements present information only as to the transactions of the Hospital and do not present information on the Parish Council, or the other governmental units that comprise the primary government reporting entity.

b) Use of Estimates

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

c) Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Accounting Standards

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.

e) Cash Equivalents

For the purpose of the statements of cash flows, short-term certificates of deposit and repurchase agreements are considered to be investments rather than cash equivalents.

f) Investments

Investments which comprise a portion of the Board-Designated Plant, Equipment and Expansion Fund, are carried at fair value. Interest and gains and losses, both realized and unrealized, on investments are included in nonoperating income when earned.

g) Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

h) Property and Equipment

The Hospital records all property and equipment acquisitions at cost. Depreciation on property and equipment is provided for on a straight-line basis over their estimated useful lives, which range from 4 to 40 years. Depreciation expense includes amortization of capital lease equipment totaling \$63,453 for each of the years ended September 30, 2001 and 2000. Accumulated amortization on capital lease equipment was \$222,084 and \$158,632 as of September 30, 2001 and 2000, respectively. When the related capital lease obligation is paid, the asset is reclassified from capital lease equipment to equipment.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee Vacation Benefits

Employee vacation benefits are accrued and expensed in the period earned by the employee.

j) Board-Designated Fund

The Hospital accounts for its plant and equipment, related debt, and funds designated by the Board for future expansion in a separate fund, entitled *The St. Anne General Hospital Plant, Equipment, and Expansion Fund*.

k) Income and Expense Classifications

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses within the statement of operations. Peripheral or incidental transactions are reported as nonoperating revenue and expense.

l) Revenue

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 has an agreement with a not-for-profit corporation which established and operates a Behavioral Health Unit at the Hospital. The agreement had an original term of four years beginning April 1, 1992 and continues under successive one-year renewal options, however it can be terminated within 90 days if the Unit is not profitable. Under the agreement, the Hospital makes available a minimum number of beds in a separate wing, and provides billing, collection, and other services for the Unit. The not-for-profit corporation pays all costs of staffing the Unit and provides related clinical and other administrative services. The Hospital charges the patients for the psychiatric services rendered and pays a fixed fee per reimbursed patient day to the not-for-profit corporation.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Property Tax Revenue

The Hospital receives special ad valorem taxes levied on property within the territorial boundaries of the Hospital Service District, which are accounted for as nonoperating revenue on an accrual basis as of the date the taxes are levied each year. Some of these tax receipts are dedicated for interest and principal retirement of the public improvement bonds which are more fully described in Note 8. The remainder of these tax receipts is available for the maintenance and operation of the Hospital.

Interest expense payable from operating revenues of the Hospital is shown as an operating expense. Interest expense on public improvement bonds supported by tax revenues is shown as a nonoperating expense, since the tax revenues provided for payment of the interest are classified as nonoperating revenue.

n) Charity Care

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

o) 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; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 2 - CASH AND INVESTMENTS

Louisiana state law allows all political subdivisions to invest excess funds in obligations of the United States, certificates of deposit of state or national banks having a branch office in Louisiana and national banks having their principal office in Louisiana or any other federally insured investment.

Bank Deposits:

State law also requires that deposits (cash and certificates of deposit) of all political subdivisions be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Obligations of the United States, the State of Louisiana, and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the political subdivision or with an unaffiliated bank or trust company for the account of the political subdivision. In accordance with state law all cash and deposits were collateralized.

Cash and deposits are categorized into three categories of credit risk.

Category 1 includes deposits covered by federal depository insurance or by collateral held by the Hospital or its agent, in the Hospital's name.

Category 2 includes deposits covered by collateral held by the pledging financial institution's trust department, or its agent in the Hospital's name.

Category 3 includes deposits covered by collateral held by the pledging financial institution, or its trust department or agent, but not in the Hospital's name.

The year-end bank balances of deposits and carrying amounts are as follows:

	Bank Balances Risk Category			Book Balances
	1	2	3	
Cash	\$100,000	\$ -	\$1,745,949	\$1,479,819
Repurchase agreements	-	-	2,566,206	2,566,206
Certificates of deposit (including accrued interest)	<u>291,134</u>	<u>-</u>	<u>3,522,234</u>	<u>3,815,651</u>
Totals	<u>\$391,134</u>	<u>\$ -</u>	<u>\$7,834,389</u>	<u>\$7,861,676</u>

Note 2 - CASH AND INVESTMENTS (Continued)

Bank Deposits: (Continued)

At September 30, 2001, cash and certificates of deposit in excess of the FDIC insurance were collateralized by securities held by unaffiliated banks for the account of the depositors. Hospital revenue bond proceeds (Note 8) are routinely invested in overnight repurchase agreements whereby the bank purchases federal government securities and holds these securities in the bank's name. These repurchase agreements are collateralized in accordance with state law, which states that securities acquired through repurchase agreements are deemed to be held in the political subdivision's name.

Investments:

State statutes authorize the Hospital to invest in obligations of the United States Treasury, agencies, and instrumentalities; commercial paper rated AAA 1, 2, or 3; repurchase agreements; and the Louisiana Asset Management Pool.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the entity at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name.

Note 2 - CASH AND INVESTMENTS (Continued)

Investments: (Continued)

At year-end, the carrying amounts of investments are as follows:

	<u>Risk Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Federal Home Loan Bank discount notes	\$347,270	\$ -	\$ -	\$347,270
Federal Farm Credit Bank discount notes	<u>98,940</u>	<u>-</u>	<u>-</u>	<u>98,940</u>
Totals	<u>\$446,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$446,210</u>

Note 3 - CONSTRUCTION IN PROGRESS

During the year ended September 30, 2001, the Hospital entered into a contract for the construction of a rehabilitation hospital, which as of September 30, 2001 was not yet complete. As of September 30, 2001 construction in progress on this project totaled \$307,229 and estimated costs to complete the project totaled \$525,632.

Note 4 - CHARITY CARE

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, the estimated cost of those services and supplies, and equivalent service statistics.

The following information measures the level of charity care provided during the years ended September 30, 2001 and 2000.

Note 4 - CHARITY CARE (Continued)

	<u>2001</u>	<u>2000</u>
Charges foregone, based on established rates	<u>\$2,322</u>	<u>\$2,649</u>
Estimated costs and expenses incurred to provide charity care	<u>\$2,200</u>	<u>\$2,400</u>
Equivalent percentage of charity care patients to all patients served	<u>.01%</u>	<u>.01%</u>

Note 5 - 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. A summary of the payment arrangements with major third-party payors follows:

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

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

The Hospital is unable to predict the future course of Federal, state and local regulation or legislation including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

Note 6 - ASSETS LIMITED AS TO USE

The following is a summary of the components of assets limited as to use:

	<u>2001</u>	<u>2000</u>
Board-Designated Plant, Equipment and Expansion Fund (established October 1, 1975):		
Cash	\$ 25,704	\$ 25,259
Repurchase agreements	2,566,206	3,953,635
Certificates of deposit	3,322,760	4,083,645
Federal Home Loan Bank discount notes (due within 1 year)	347,270	1,406,398
Federal Farm Credit Bank discount notes (due within 1 year)	98,940	97,200
Interest receivable	47,215	114,368
Other	<u>4,962</u>	<u>31,694</u>
Totals	<u>\$6,413,057</u>	<u>\$9,712,199</u>
Debt Service Funds:		
Public Improvement Bonds, Series 1977:		
Cash	\$ 12,074	\$ 12,205
Certificate of deposit	175,000	280,396
Interest receivable	141	515
Ad Valorem tax receivable	<u>-</u>	<u>183</u>
Totals	187,215	293,299
Hospital Revenue Bond, Series 2000:		
Cash	<u>46,624</u>	<u>20,088</u>
Totals	<u>\$233,839</u>	<u>\$313,387</u>

Note 7 - RELATED PARTY TRANSACTIONS

a) Investment in Limited Liability Company

On October 29, 1997, St. Anne General Hospital and two other hospitals (the "Members") entered into a limited liability company operating agreement and formed Bayou Labs of Louisiana, L.L.C. ("the L.L.C."). The L.L.C. intends to operate at all times in such a way as to be classified as a cooperative hospital service organization under Section 501(c) of the Internal Revenue Code. The purpose of the L.L.C. is to own and operate a cardiac catheterization laboratory for the exclusive use of inpatients and outpatients of the members. The laboratory, which is located at St. Anne General Hospital, was placed in service in October 1998. As of September 30, 2001, St. Anne General Hospital has invested \$320,000 in the limited liability company which was used primarily for the purchase of the catheterization equipment. The Hospital accounts for its investment in the L.L.C. under the equity method of accounting.

Following is a summary of financial position and results of operations of Bayou Labs of Louisiana, L.L.C. as of and for the years ended September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Current assets	\$ 907,053	\$1,135,256
Property, plant and equipment	<u>636,305</u>	<u>763,752</u>
Total assets	<u>\$1,543,358</u>	<u>\$1,899,008</u>
Current liabilities	\$ 43,481	\$ 46,583
Limited liability company equity	<u>1,499,877</u>	<u>1,852,425</u>
Total liabilities and limited liability company equity	<u>\$1,543,358</u>	<u>\$1,899,008</u>
Fees	<u>\$539,741</u>	<u>\$879,174</u>
Net income	<u>\$187,452</u>	<u>\$513,519</u>

Note 7 - RELATED PARTY TRANSACTIONS (Continued)

b) Lease

The Hospital leases space to the L.L.C. for a monthly rental of \$304. The lease was executed effective January 1998 for five years. At the expiration of the current term, the lease will automatically renew for additional one-year terms unless cancelled by either party.

c) Operations

The Hospital reimburses the L.L.C. for procedures performed in the cardiac catheterization laboratory based on a mutually agreed-upon rate per procedure. This rate is determined based on the amounts expected to be received from the patients' insurers for the procedures performed. The Hospital performs the billing and collections function for all services rendered by the laboratory. During the years ended September 30, 2001 and 2000, the Hospital paid the L.L.C. \$539,741 and \$879,174, respectively, for procedures performed. As of September 30, 2001 and 2000, amounts due to the L.L.C. for procedures performed totaled \$259,142 and \$458,769, respectively.

The Hospital provides labor and supplies for the operation of the cardiac catheterization laboratory. The L.L.C. reimburses the Hospital for these expenses at a mutually agreed-upon rate per procedure performed. During the years ended September 30, 2001 and 2000, the Hospital reported income from the provision of labor and supplies totaling \$155,785 and \$175,640, respectively. As of September 30, 2001 and 2000 reimbursements due from the L.L.C. totaled \$43,481 and \$46,583, respectively.

Note 8 - LONG-TERM DEBT

Public Improvement Bonds

During 1977, the Hospital Service District issued public improvement bonds totaling \$1,500,000 to finance expansion of the hospital. Interest payments and principal retirements of the bonds are funded through special ad valorem taxes levied on property within the boundaries of the Hospital Service District. The bonds are callable by the District at face amount plus accrued interest in inverse order of their maturity on any interest payment date after ten years from their date of original issuance.

Note 8 - LONG-TERM DEBT (Continued)

Hospital Revenue Bond

On July 12, 2000, the Hospital Service District issued Hospital Revenue Bond, Series 2000 of Lafourche Parish Hospital Service District No. 2 of the Parish of Lafourche, State of Louisiana in the amount of \$4,000,000 payable to Louisiana Public Facilities Authority (the "Authority"). Under an agreement the Authority has loaned the Hospital Service District a portion of the proceeds received from its sale of Louisiana Public Facilities Authority Equipment and Capital Facilities Pooled Loan Program Revenue Bonds, Series 2000 (Authority Bonds). The Hospital Service District intends to utilize the loan proceeds to organize and construct additions and improvements to the Hospital including but not limited to, telemetry equipment, labor and delivery room renovations, physician-employee office space and emergency room renovations.

Interest on the unpaid principal balance of the Hospital Revenue bond is to be paid at the rate borne by the Authority Bonds, which varies and currently is estimated to approximate 4%. The Hospital Revenue Bond is payable as to principal and interest solely by a pledge of income, revenue and receipts to be derived from the operation of the Hospital, subject only to prior payment of reasonable and necessary expenses of operating and maintaining the Hospital.

In addition to interest, the Hospital will pay quarterly, a letter of credit fee and a remarketing fee which aggregate approximately 1.365% per annum of the total of the outstanding principal balance owed by the Authority to its bondholders plus a reserve for interest for 106 days at 12%.

The following is a summary of bonds payable:

	2001	2000
Public Improvement Bonds, Series 1977, 4.5% to 5.6% due serially to 2002, with annual principal installments of \$120,000	\$ 120,000	\$ 230,000
Hospital Revenue Bond, Series 2000, 4% (approximately) due in 184 equal monthly principal installments of \$21,739 beginning October 2001	4,000,000	4,000,000
	4,120,000	4,230,000
Less current maturities	(380,870)	(110,000)
Bonds payable, net of current maturities	\$3,739,130	\$4,120,000

Note 8 - LONG-TERM DEBT (Continued)

Interest expense on bonds payable for the years ended September 30, 2001 and 2000 totaled \$142,842 and \$50,007, respectively. Aggregate maturities of bonds payable at September 30, 2001 are as follows:

<u>Year Ending September 30,</u>	
2002	\$ 380,870
2003	260,870
2004	260,870
2005	260,870
2006	260,870
2007 – 2011	1,304,350
2012 – 2016	1,304,350
2017	<u>86,950</u>
Total	<u>\$4,120,000</u>

Capital Lease Obligations

The Hospital acquired equipment under the provisions of various long-term leases. For financial reporting purposes, minimum lease payments relating to the equipment have been capitalized.

The following is a summary of capitalized lease obligations:

	<u>2001</u>	<u>2000</u>
Capitalized lease obligation, discounted at a rate of 5.35%, due in monthly installments of \$3,724 to July 2003	\$ 77,872	\$ 117,242
Capitalized lease obligation, discounted at a rate of 6.51%, due in monthly installments of \$2,367 to July 2003	<u>48,961</u>	<u>73,310</u>
	126,833	190,552
Less current maturities	<u>(67,512)</u>	<u>(63,719)</u>
Capital lease obligations, net of current maturities	<u>\$ 59,321</u>	<u>\$126,833</u>

Note 8 - LONG-TERM DEBT (Continued)

Interest expense on capital lease obligations for the years ended September 30, 2001 and 2000 totaled \$9,372 and \$14,629, respectively. The future minimum lease payments due as a result of these noncancellable capital leases together with the present value of the minimum lease payments as of September 30, 2001 are as follows:

<u>Year Ending September 30,</u>	
2002	\$ 73,092
2003	<u>60,910</u>
Total minimum lease payments	134,002
Amount representing imputed interest	<u>(7,169)</u>
Present value of capital lease obligations	<u>\$126,833</u>

Note 9 - EMPLOYEE RETIREMENT PLAN

The Hospital has a defined contribution pension plan which covers substantially all full-time employees after they have met certain eligibility requirements. The Hospital contributes 7% of a participant's base hourly wage, up to a maximum of 80 hours in a two-week payroll period. Contributions are not made for overtime, differentials, or call pay earned by participants. The Hospital's contributions to the plan for the years ended September 30, 2001 and 2000 were \$349,689 and \$323,868, respectively.

Note 10 - CONCENTRATION OF CREDIT RISK

The Hospital grants credit for health care services rendered to patients who reside primarily in Lafourche Parish, Louisiana. The mix of receivables from patients and third-party payors at September 30, 2001 and 2000, was as follows:

Note 10 - CONCENTRATION OF CREDIT RISK (Continued)

	<u>2001</u>	<u>2000</u>
Medicare	16%	13%
Medicaid	6%	4%
Other third-party payors	56%	60%
Patients	<u>22%</u>	<u>23%</u>
Totals	<u>100%</u>	<u>100%</u>

Note 11 - COMMITMENT

In connection with the Hospital Revenue Bond, Series 2000 (Note 8), the Hospital has entered into a "Reimbursement Agreement" and a "Reimbursement Promissory Note" to evidence its obligation to reimburse a bank which has issued a letter of credit to secure the payment of Louisiana Public Facility Authority bonds. In addition, the Hospital granted a mortgage in favor of the bank as a condition precedent to issuing the letter of credit.

Note 12 - CONTINGENCIES

The Hospital carries professional liability insurance for medical malpractice losses up to \$100,000. It is a member of the Louisiana Patients' Compensation Fund, which provides coverage for any such losses in excess of \$100,000 up to the \$500,000 statutory maximum of awards for such damages in Louisiana. The Hospital is a defendant in several lawsuits. Management of the Hospital believes, however, that no probable losses have been incurred as a result of these claims, and no provision has been made in the financial statements for any liability that might be incurred from their ultimate resolution.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and

Note 12 - CONTINGENCIES (Continued)

abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. 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.

NET PATIENT SERVICE REVENUES**St. Anne General Hospital**

For the years ended September 30, 2001 and 2000

	2001	2000
Daily Patient Services		
Ambulatory care	\$ 305,600	\$ 309,195
Behavioral health unit	2,354,322	3,327,619
Cardiac catheterization laboratory	1,173,471	1,414,040
Intensive care	531,050	479,000
Medical and surgical unit	1,732,874	1,158,482
Newborn nursery	130,340	143,659
Skilled nursing facilities	280,640	177,080
Lockport Medical Clinic	294,210	477,689
St. Anne Medical Clinic (old)	58,497	472,657
St. Anne Surgical Clinic	817,091	1,388,228
St. Anne Internal Medicine Clinic	245,191	71,485
St. Anne Medical Clinic (new)	1,098,378	-
St. Anne Women's Clinic	485,262	-
	<u>9,506,926</u>	<u>9,419,134</u>
Other Nursing Services		
Ambulatory surgery	943,111	963,678
Central service and supply	2,610,372	2,887,420
Delivery and labor rooms	103,075	105,389
Emergency services	1,635,046	1,428,249
Home health services	643,947	474,263
Operating room	1,864,858	1,991,561
	<u>7,800,409</u>	<u>7,850,560</u>
Other Professional Services		
Anesthesiology	836,398	821,947
Cardiopulmonary	3,805,732	3,310,229
Laboratory	4,367,171	4,098,908
Pharmacy	4,521,899	3,828,501
Physical therapy	132,214	81,265
Radiology	3,607,399	3,111,663
	<u>17,270,813</u>	<u>15,252,513</u>
Gross patient service revenues	<u>34,578,148</u>	<u>32,522,207</u>
Allowances and Uncollectible Amounts		
Administrative adjustments	(8,238,244)	(6,557,793)
Charity allowances	(2,322)	(2,649)
Medicare and Medicaid contractual allowances	(6,649,441)	(6,084,709)
	<u>(14,890,007)</u>	<u>(12,645,151)</u>
Net patient service revenues	<u>\$ 19,688,141</u>	<u>\$ 19,877,056</u>

OPERATING EXPENSES

St. Anne General Hospital

For the years ended September 30, 2001 and 2000

	2001			Totals
	Salaries and Wages	Professional Services	Supplies and Other Expenses	
Nursing Services				
Administrative office	\$ 275,224	\$ -	\$ 8,443	\$ 283,667
Ambulatory surgery	10,661	-	-	10,661
Cardiac catheterization laboratory	73,566	540,941	119,659	734,166
Central services and supply	91,590	-	619,514	711,104
Delivery and labor rooms	248,852	-	16,479	265,331
Emergency services	503,860	627,357	26,605	1,157,822
Home health services	254,555	90,810	41,767	387,132
Intensive care	338,429	-	17,026	355,455
Medical and surgical unit	1,184,236	650	119,907	1,304,793
Newborn nursery	94,987	-	8,839	103,826
Operating room	571,218	-	136,512	707,730
Skilled nursing facilities	169,590	-	16,153	185,743
Specialized nursing assignment plan	30,304	-	-	30,304
Lockport Medical Clinic	213,633	104	21,227	234,964
St. Anne Medical Clinic (old)	28,305	-	2,843	31,148
St. Anne Surgical Clinic	468,044	47,934	27,338	543,316
St. Anne Internal Medicine Clinic	127,703	-	3,351	131,054
St. Anne Medical Clinic (new)	706,274	25,361	51,734	783,369
St. Anne Women's Clinic	37,606	132,044	44,878	214,528
	<u>5,428,637</u>	<u>1,465,201</u>	<u>1,282,275</u>	<u>\$ 8,176,113</u>
Other Professional Services				
Anesthesiology	226,844	32,872	8,398	\$ 268,114
Behavioral health	-	1,185,835	15,563	1,201,398
Cardiopulmonary	326,578	197,491	107,822	631,891
Cardiovascular	-	-	-	-
Environmental services	61,219	-	115	61,334
Infection control	17,618	-	-	17,618
Laboratory	389,896	217,303	488,495	1,095,694
Health information service	204,128	-	9,313	213,441
Pharmacy	192,958	-	585,199	778,157
Physical therapy	-	66,107	-	66,107
Radiology	303,259	172,868	113,488	589,615
	<u>1,722,500</u>	<u>1,872,476</u>	<u>1,328,393</u>	<u>\$ 4,923,369</u>

2000			
Salaries and Wages	Professional Services	Supplies and Other Expenses	Totals
\$ 228,177	\$ -	\$ 3,353	\$ 231,530
9,670	-	-	9,670
82,943	880,374	120,617	1,083,934
89,863	-	698,854	788,717
284,643	-	18,206	302,849
457,718	622,850	20,955	1,101,523
230,083	65,850	43,939	339,872
302,266	-	16,177	318,443
953,551	7,175	94,312	1,055,038
158,787	-	8,103	166,890
561,764	-	134,478	696,242
196,519	-	19,602	216,121
24,879	-	-	24,879
454,071	1,650	36,835	492,556
458,667	-	24,615	483,282
593,119	-	34,710	627,829
38,199	-	1,047	39,246
-	-	-	-
-	-	-	-
<u>5,124,919</u>	<u>1,577,899</u>	<u>1,275,803</u>	<u>\$ 7,978,621</u>
225,407	40,056	5,095	\$ 270,558
-	1,312,834	14,113	1,326,947
312,735	71,662	78,650	463,047
-	-	-	-
53,560	-	125	53,685
17,480	-	11	17,491
357,677	238,064	441,358	1,037,099
183,844	-	12,516	196,360
186,190	-	559,574	745,764
-	40,633	-	40,633
283,433	119,650	103,132	506,215
<u>1,620,326</u>	<u>1,822,899</u>	<u>1,214,574</u>	<u>\$ 4,657,799</u>

2001

	Salaries and Wages	Professional Services	Supplies and Other Expenses	Totals
Administrative Services				
Accreditation fees	-	21,434	-	\$ 21,434
Advertising	-	-	40,457	40,457
Collection expense	-	-	31,043	31,043
Communications	-	-	99,012	99,012
Dues and subscriptions	-	-	35,686	35,686
Employee insurance	-	-	494,018	494,018
Executive office	307,512	-	13,158	320,670
Insurance	-	-	379,448	379,448
Leases	-	-	26,865	26,865
Pensions	-	-	349,689	349,689
Professional fees	-	120,528	-	120,528
Postage	-	-	64,097	64,097
Public relations	-	16,066	49,434	65,500
Purchasing	27,624	-	2,574	30,198
Quality management	242,060	-	38,008	280,068
Taxes and licenses	-	-	641,441	641,441
Travel and seminars	-	-	81,517	81,517
	<u>577,196</u>	<u>158,028</u>	<u>2,346,447</u>	<u>\$ 3,081,671</u>
General Services				
Dietary	292,143	-	286,008	\$ 578,151
Housekeeping	167,658	-	72,199	239,857
Laundry and linen	68,573	-	9,120	77,693
Plant operations and maintenance	220,347	13,534	248,526	482,407
Security	-	124,370	162	124,532
Utilities	-	-	420,452	420,452
	<u>748,721</u>	<u>137,904</u>	<u>1,036,467</u>	<u>\$ 1,923,092</u>
Fiscal Services				
Accounting	129,104	-	3,500	\$ 132,604
Business office	342,092	-	40,858	382,950
Data processing	19,588	-	100,105	119,693
	<u>490,784</u>	<u>-</u>	<u>144,463</u>	<u>\$ 635,247</u>
Totals	<u>\$ 8,967,838</u>	<u>\$ 3,633,609</u>	<u>\$ 6,138,045</u>	

Schedule 2
(Continued)

2000			
Salaries and Wages	Professional Services	Supplies and Other Expenses	Totals
-	-	-	\$ -
-	-	41,593	41,593
-	-	29,396	29,396
-	-	80,629	80,629
-	-	46,874	46,874
-	-	474,508	474,508
284,951	34,201	8,473	327,625
-	-	273,086	273,086
-	-	26,273	26,273
-	-	323,868	323,868
-	108,191	-	108,191
-	-	49,646	49,646
-	53,225	49,323	102,548
27,107	-	4,226	31,333
230,559	-	25,406	255,965
-	-	600,944	600,944
-	-	84,795	84,795
<u>542,617</u>	<u>195,617</u>	<u>2,119,040</u>	<u>\$ 2,857,274</u>
287,149	-	270,456	\$ 557,605
158,693	-	80,905	239,598
66,616	-	9,759	76,375
211,957	3,249	291,731	506,937
-	120,689	387	121,076
-	-	357,759	357,759
<u>724,415</u>	<u>123,938</u>	<u>1,010,997</u>	<u>\$ 1,859,350</u>
124,738	-	3,294	\$ 128,032
302,679	-	42,487	345,166
18,945	-	79,174	98,119
<u>446,362</u>	<u>-</u>	<u>124,955</u>	<u>\$ 571,317</u>
<u>\$ 8,458,639</u>	<u>\$ 3,720,353</u>	<u>\$ 5,745,369</u>	

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS



Bourgeois Bennett

**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**

To the Board of Commissioners,
Hospital Service District No. 2,
Lafourche Parish, Louisiana.

We have audited the general-purpose financial statements of St. Anne General Hospital (Hospital Service District No. 2, Parish of Lafourche, State of Louisiana), a component unit of the Lafourche Parish Council, as of and for the year ended September 30, 2001, and have issued our report thereon dated December 5, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 general-purpose financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations and contracts, 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 disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose 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 general-purpose 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 considered to be material weaknesses.

This report is intended for the information of the Board of Commissioners, management of the Hospital, and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
December 5, 2001.

SCHEDULE OF FINDINGS

St. Anne General Hospital

For the year ended September 30, 2001

Section I - Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are
not considered to be material weakness yes none reported

Noncompliance material to financial statements noted? yes no

b) Federal Awards

St. Anne General Hospital did not receive any Federal awards during the year ended September 30, 2001.

Section II - Financial Statement Findings

No financial statement findings were noted during the audit for the year ended September 30, 2001.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS

St. Anne General Hospital

For the year ended September 30, 2001

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

Internal Control

No material weaknesses were noted during the audit for the year ended September 30, 2000. No reportable conditions were reported during the audit for the year ended September 30, 2000.

Compliance

No compliance findings material to the financial statements were noted during the audit for the year ended September 30, 2000.

Section II - Internal Control and Compliance Material to Federal Awards

St. Anne General Hospital did not receive any Federal awards during the year ended September 30, 2000.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended September 30, 2000.

MANAGEMENT'S CORRECTIVE ACTION PLAN

St. Anne General Hospital

For the year ended September 30, 2001

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

Internal Control

No material weaknesses were noted during the audit for the year ended September 30, 2001. No reportable conditions were reported during the audit for the year ended September 30, 2001.

Compliance

No compliance findings material to the financial statements were noted during the audit for the year ended September 30, 2001.

Section II - Internal Control and Compliance Material to Federal Awards

St. Anne General Hospital did not receive any Federal awards during the year ended September 30, 2001.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended September 30, 2001.