

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

Zachary, Louisiana

Audited Financial Statements

Years Ended June 30, 2003 and 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3.17.04

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of June 30, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

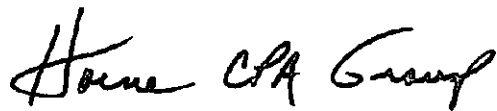
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and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

As described in Note 1, the Hospital has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2002. The Hospital has also adopted the provisions of GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; as of July 1, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2003, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Jackson, Mississippi
August 26, 2003

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

Our discussion and analysis of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana's (d/b/a Lane Memorial Hospital), (i.e. the "Hospital") financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2003 and 2002. Please read it in conjunction with the Hospital's financial statements, which begin on page 9. Unless otherwise indicated, amounts are in thousands.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased (\$1,311) or 3.5 percent in 2003 and increased \$652 or 1.8 percent in 2002.
- The Hospital reported an operating loss in 2003 of (\$1,813) and an operating income in 2002 of \$315. The operating margin declined by (\$2,128) in 2003 and increased by \$347 in 2002.
- Nonoperating revenues in 2003 increased \$164 or 48.7 percent as compared to 2002. Nonoperating revenues in 2002 decreased (\$254) or (42.8) percent as compared to 2001.
- The Hospital reported cash and cash equivalents at June 30, 2003 of \$999 and at June 30, 2002 of \$1,028. Cash and cash equivalents decreased (\$29) or (2.8) percent as compared to 2002. Cash and cash equivalents decreased (\$98) or (8.7) percent as compared to 2001.

USING THIS ANNUAL REPORT

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

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

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

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

THE STATEMENTS OF CASH FLOWS

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 9. The Hospital's total net assets decreased from \$37,730 in 2002 to \$36,419 in 2003, a decrease of (\$1,311). Between 2001 and 2002 total net assets increased from \$37,078 to \$37,730 respectively, an increase of \$652 or 1.8 percent.

Table 1: Assets, Liabilities, and Net Assets

	2003	2002	2001
Assets			
Current assets	\$ 15,634	\$ 19,753	\$ 21,093
Noncurrent cash and investments	6,600	2,328	1,465
Capital assets, net	26,935	27,898	28,340
Other noncurrent assets	919	657	236
Total Assets	50,088	50,636	51,134
Liabilities			
Long-term debt	7,728	8,737	9,720
Current liabilities	5,941	4,169	4,336
Total liabilities	13,669	12,906	14,056
Net Assets			
Invested in capital, net of related debt	18,199	18,177	17,661
Restricted for debt service	287	557	547
Unrestricted	17,933	18,996	18,870
Total net assets	\$ 36,419	\$ 37,730	\$ 37,078

A significant component of the change in the Hospital's assets between 2002 and 2003 is the change in estimated third-party payor settlements. Between 2002 and 2003 estimated third-party payor settlements changed from a receivable of \$1,107 in 2002 to a payable of \$1,174 in 2003, a change of \$2,281 or 206.2 percent. The majority of this change relates to the Hospital's transition from the periodic interim payment (PIP) payment methodology for inpatient Medicare services to a diagnostic related group DRG basis and the reconciliation required of such an averaging system as PIP to the underlying related DRG payment. During this same period of time operating revenues increased \$987 or 2.4 percent. Patient accounts receivable, net of estimated uncollectible accounts increased by \$877 or 14.5 percent in 2003 and decreased by (\$927) or (13.3) percent in 2002.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2003 the Hospital's net assets decreased (\$1,311); in 2002 and 2001 the Hospital's net assets increased \$652 and \$559 respectively. The change in net assets is due to various components and represents a decline of 3.5 percent compared to the total net assets at June 30, 2002 and an increase of 1.8 percent compared to the total net assets at June 30, 2001.

Table 2: Operating Results and Changes in Net Assets

	2003	2002	2001
Operating Revenues			
Patient Service Revenue	\$ 37,760	\$ 37,210	\$ 36,930
Other operating revenues	3,955	3,517	3,429
Total Operating Revenues	41,715	40,727	40,359
Operating Expenses			
Salaries and benefits	26,069	22,694	22,260
Medical supplies and drugs	4,912	5,075	5,002
Depreciation and amortization	2,520	2,417	2,309
Other operating expenses	10,027	10,226	10,819
Total Operating Expenses	43,528	40,412	40,390
Operating (Loss) Income	(1,813)	315	(31)
Nonoperating Revenue (Expenses)			
Investment income	485	558	791
Interest expense	(241)	(453)	(439)
Other nonoperating revenue	258	232	238
Net Nonoperating Revenue	502	337	590
(Decrease) Increase in Net Assets	(1,311)	652	559
Net Assets at End of Year	\$ 36,419	\$ 37,730	\$ 37,078

Operating (Loss) Income

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

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

- An increase in patient service revenues of \$550 between 2002 and 2003. This increase is comprised of:
 - An increase in patient service revenues attributable to increasing volumes on a per adjusted discharge basis of \$5,694, and a
 - Decrease in patient service revenues attributable to flat to declining payments from governmental and third-party payors on a per adjusted discharge basis of (\$5,144).

Generally, revenues from the Medicare program have remained flat due to the Balanced Budget Act of 1997 and subsequent federal legislation. The Louisiana Medicaid program payments are subject to the state budgetary pressures and have also remained flat. Third-party payor payment rates have not kept pace with medical inflation. Third-party payor agreement contracts are in the process of being renegotiated with the various insurers, provider networks, preferred provider organizations, and health maintenance organizations with which the Hospital conducts business.

- An increase in salaries and wages of \$1,560 or 7.8 percent between 2002 and 2003. Hospital staffing, wages and productivity did not maintain balance with net revenues. Subsequent to 2003 certain positions were eliminated and certain employees elected to take earlier retirement, which realigned staffing to net revenues.
- An increase in fringe benefit costs of \$1,815 or 65.0 percent between 2002 and 2003, primarily attributable to health benefits. The Hospital experienced an increase in utilization in its self-funded health plan attributable to high dollar claims, the average size of claims, and volume of claims. Subsequent to 2003, the self-funded plan was redesigned to share the increased cost of the benefit with the employees.

Non Operating Revenues and Expenses

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

The \$164 increase in nonoperating revenues and expenses between 2002 and 2003 is primarily due to a decrease in interest paid on long term debt and increased rental income from the medical office building, all of which was offset by decreased investment income as interest rates declined in 2003. Nonoperating revenues and expenses between 2001 and 2002 decreased by \$253 due to a decline in investment income in 2002.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier, with one exception. Cash flows used by capital and related financing activities exceed cash provided by operating activities and cash flows from investing activities. This is partially due to the Hospital's historical position of replacing assets and providing for new assets or for new services by drawing on its cash and investments in lieu of obtaining financing.

Cash and Cash Equivalents

The Hospital reported cash and cash equivalents at June 30, 2003 of \$999 and at June 30, 2002 of \$1,028. Cash and cash equivalents decreased in 2003 by (\$29) or (2.8) percent as compared to 2002. Cash and cash equivalents decreased in 2002 by (\$98) or (8.7) percent as compared to 2001.

Investments

Investments that are not considered to be cash and cash equivalents are \$13,254 at June 30, 2003 and are \$12,633 at June 30, 2002. These investments increased in 2003 by \$621 or 4.9 percent as compared to 2002 and decreased in 2002 by (\$230) or (1.8) percent as compared to 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of 2003 the Hospital had \$26,935 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2003, the Hospital purchased new equipment costing \$1,370. In 2002, the Hospital purchased new equipment costing \$1,906. Recently, the Hospital has been leasing and renting much of its equipment. This allows the Hospital to provide for capital replacement, while at the same time preserving its cash and investments.

Debt

At June 30, 2003, the Hospital had \$8,736 in revenue and refunding bonds outstanding, which is detailed in Note 5 to the financial statements. No new debt was issued in 2003 or 2002. The Hospital's formal debt issuances cannot be issued without approval of the Louisiana Bond Commission. Debt issuances reviewed by the Bond Commission is limited, primarily to the debt capacity of the Hospital and secondarily to the debt capacity of the City-Parish of Baton Rouge, see Note 1 to the financial statements. The Hospital has received waivers from the bond holders in 2003, as the debt service targets were not met for fiscal year 2003.

Other Economic Factors

The Hospital experienced several environmental factors in 2003 that affected the financial performance of the organization. In response, a new management team was engaged to lead the Hospital through a period of change. In addition, new physicians were recruited to the community in late 2003 and several more will be arriving in early 2004.

These changes have occurred against the backdrop of the Hospital's historical operating efficiencies (i.e. low cost and low charge provider) and the Hospital's favorable demographics (i.e. Zachary is the second fastest growing community in Louisiana). These are significant attributes that will have a positive bearing on the future growth of the Hospital.

Contacting the Service District Hospital's Financial Management

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

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

Balance Sheets
June 30, 2003 and 2002

ASSETS	2003	2002	LIABILITIES AND NET ASSETS	2003	2002
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 999,380	\$ 1,028,237	Current maturities of long-term debt	\$ 1,008,646	\$ 983,647
Certificates of deposit	1,000,000	4,900,000	Accounts payable	749,198	951,010
Short-term investments	5,653,658	5,405,271	Accrued salaries and wages	914,950	554,305
Investments held by trustee for debt service	287,251	557,229	Accrued compensated absences	876,386	801,690
Patient accounts receivable, net of allowances for doubtful accounts of \$1,501,157 in 2003 and \$1,186,591 in 2002	6,919,997	6,042,990	Accrued payroll withholdings	414,852	371,063
Estimated third-party payor settlements	-	1,106,641	Estimated third-party payor settlements	1,174,834	-
Inventories	486,813	526,383	Other current liabilities	802,593	507,170
Other current assets	286,697	186,250			
Total Current Assets	15,633,796	19,753,001	Total Current Liabilities	5,941,459	4,168,885
Noncurrent Cash and Investments			Long-term debt, less current maturities	7,727,983	8,736,629
Certificates of deposit	6,600,000	1,250,000	Total Liabilities	13,669,442	12,905,514
Long-term investments	-	301,978	Net Assets		
Internally designated for future capital improvements	-	776,151	Invested in capital assets net of related debt	18,198,589	18,177,465
Total Noncurrent Cash and Investments	6,600,000	2,328,129	Restricted for debt service	287,251	557,229
Capital assets, net	26,935,218	27,897,741	Unrestricted	17,933,018	18,995,682
Other Assets	919,286	657,019	Total Net Assets	36,418,858	37,730,376
Total Assets	\$ 50,088,300	\$ 50,635,890	Total Liabilities and Net Assets	\$ 50,088,300	\$ 50,635,890

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL**
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,835,267 in 2003 and \$3,101,117 in 2002	\$ 37,760,918	\$ 37,210,235
Other operating revenue	3,953,699	3,517,034
Total Operating Revenues	41,714,617	40,727,269
Operating Expenses		
Salaries	21,462,617	19,902,541
Fringe benefits	4,606,233	2,791,321
Nonmedical supplies	1,362,304	1,437,716
Medical supplies	4,911,533	5,075,373
Professional fees	754,139	739,024
Contracted services	3,581,049	3,961,521
Utilities	948,072	917,308
Repairs and maintenance	808,412	762,109
Insurance	850,900	795,547
Depreciation and amortization	2,520,276	2,417,153
Other	1,722,201	1,612,330
Total Operating Expenses	43,527,736	40,411,943
Operating (Loss) Income	(1,813,119)	315,326
Nonoperating Revenue (Expenses)		
Investment income	484,531	557,802
Interest expense	(240,874)	(452,502)
Other nonoperating revenue	257,944	232,087
Net Nonoperating Revenue	501,601	337,387
(Decrease) Increase in Net Assets	(1,311,518)	652,713
Net Assets, beginning of year	37,730,376	37,077,663
Net Assets, end of year	\$ 36,418,858	\$ 37,730,376

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

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

Nature of Operations

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi.

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

Financial Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

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

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Audits of Health Care Organizations*, published by the American Institute of Certified Public Accountants.

Implementation of New Accounting Pronouncements

Government Accounting Standards Board Statement No. 34 (GASB 34)

The Hospital has adopted the provisions GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the Hospital records transactions and presents financial information.

GASB 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of governments easier to understand and more useful to people who use governmental financial information to make decisions.

Management's Discussion and Analysis (MD&A) – GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Hospital's financial activities in the form of an MD&A. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Balance Sheets – The balance sheets are designed to display the financial position of primary government for both governmental and business-type activities. The net assets of the Hospital are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Governmental Accounting Standards Board Statement No. 37 (GASB 37)

The Hospital adopted the provisions of GASB 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus*. This statement amends GASB 34 to either: 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the Hospital considered the effects of this statement when adopting the provisions of GASB 34 as previously described.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Government Accounting Standards Board Statement No. 38 (GASB 38)

The Hospital adopted the provision of GASB 38 *Certain Financial Statement Note Disclosures*. This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB 38.

Governmental Accounting Standards Board Interpretation No. 6

The Hospital adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. Application of this interpretation had no effect on the Hospital's financial statements.

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 these estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less, including amounts designated by the Board of Commissioners. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets.

Investments and Investment Income

Investments in debt and equity securities are carried at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Internally Designated Assets

Internally designated assets include assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Patient Accounts Receivable

Patients accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

Inventories

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

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Capital Assets

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note I. Continued

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's yearly operations.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Charity Care

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

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation and sick leave. Accumulated vacation and sick pay are accrued at the balance sheet date because they are payable upon termination of employment.

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's injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured for employee health and dental benefits.

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform with the 2003 presentation.

Note 2. Deposits and Investments

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

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

At June 30, 2003 and 2002, the fair value and risk categories of the Hospital's deposits and investments were as follows:

	2003	2002	Risk Category
Petty cash	\$ 2,900	2,700	1
Demand deposit and money market accounts	1,283,731	1,608,917	1
Certificates of deposit	7,600,000	6,900,000	1
Mutual Funds - U. S. Government Securities	4,418,178	4,187,733	N/A
Louisiana asset management pool	1,235,480	1,217,538	N/A
U. S. Government Agency Security	-	301,978	1
Total	\$ 14,540,289	14,218,866	

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

	2003	2002
Cash and cash equivalents	\$ 999,380	\$ 1,028,237
Certificates of deposit	7,600,000	6,150,000
Short-term investments	5,653,658	5,405,271
Long-term investments	-	301,978
Investments held by trustee for debt service	287,251	557,229
Internally designated for future capital improvements	-	776,151
Total	\$ 14,540,289	\$ 14,218,866

Under state law, these deposits must be secured by either Federal deposit insurance or by the pledge of securities owned by a fiscal agent bank. The market value of the pledged securities plus the Federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. At June 30, 2003, the Hospital had \$8,566,245 in deposits (collected bank balances). Of these bank balances, \$200,000 was covered by Federal depository insurance, and the remainder was secured by collateral held by the fiscal agent bank in the name of the Hospital.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana law and national banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

Note 3. Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital at amounts different from its established rates. Patient revenue is reported net of contractual adjustments and estimated bad debts arising from these third-party arrangements. Contractual adjustments under third-party reimbursement programs represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows:

Medicare

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

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and an audit thereof by the Medicaid fiscal intermediary.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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

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

Note 4. Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2002 and 2003 were as follows:

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Land and land improvements	\$ 1,618,307	\$ -	\$ -	\$ 1,618,307
Buildings	26,204,289	187,313	-	26,391,602
Fixed equipment	3,715,912	-	-	3,715,912
Movable and other equipment	18,037,555	1,168,804	238,598	18,967,761
Physicians' office building and equipment	3,090,509	13,584	4,360	3,099,733
Totals at historical cost	52,666,572	1,369,701	242,958	53,793,315
Less accumulated depreciation for				
Land improvements	190,705	1,735	-	192,440
Buildings	8,694,598	695,697	-	9,390,295
Fixed equipment	3,090,020	129,177	-	3,219,197
Movable and other equipment	11,986,448	1,379,880	237,917	13,128,411
Physicians' office building and equipment	807,060	124,981	4,287	927,754
Total accumulated depreciation	24,768,831	2,331,470	242,204	26,858,097
Capital assets, net	\$ 27,897,741	\$ (961,769)	\$ 754	\$ 26,935,218

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

	Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002
Land and land improvements	\$ 1,569,045	\$ 49,262	\$ -	\$ 1,618,307
Buildings	25,867,158	337,131	-	26,204,289
Fixed equipment	3,715,912	-	-	3,715,912
Movable and other equipment	16,859,724	1,456,182	278,351	18,037,555
Physicians' office building and equipment	3,027,438	63,071	-	3,090,509
Totals at historical cost	51,039,277	1,905,646	278,351	52,666,572
Less accumulated depreciation for				
Land improvements	188,884	1,821	-	190,705
Buildings	7,973,115	721,483	-	8,694,598
Fixed equipment	2,960,709	129,311	-	3,090,020
Movable and other equipment	10,896,629	1,351,624	261,805	11,986,448
Physicians' office building and equipment	680,010	127,050	-	807,060
Total accumulated depreciation	22,699,347	2,331,289	261,805	24,768,831
Capital assets, net	\$ 28,339,930	\$ (425,643)	\$ 16,546	\$ 27,897,741

Note 5. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2003 and 2002 follows:

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

	Balance June 30, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds Payable					
Series 1996	\$ 6,360,000	\$ -	\$ 500,000	\$ 5,860,000	\$ 525,000
Series 2000	3,228,573	-	342,858	2,885,715	342,858
Series 2001	1,090,349	-	115,788	974,561	115,789
Total long-term debt	\$ 10,678,922	\$ -	\$ 958,646	\$ 9,720,276	\$ 983,647

Long-Term Debt

The terms and due dates of the Hospital's long-term debt at June 30, 2003 and 2002, follow:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65 percent of LIBOR, plus 1.6 percent, due in monthly installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2000), variable interest rates, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.

As part of the bond agreement, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements.

The Hospital was not in compliance with the required debt service coverage ratio for the year ended June 30, 2003. Subsequent to year end, the Hospital has obtained a waiver from its lenders related to the violation for the year ended June 30, 2003. The waiver does not extend to any periods subsequent to June 30, 2003. However, based on the Hospital's most recent unaudited financial information, management believes that the debt service coverage ratio will be met during the fiscal year ended June 30, 2004. Accordingly, the debt has been classified on the accompanying balance sheet in accordance with the original debt maturity schedule.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

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

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2004	\$ 1,008,646	\$ 450,153
2005	1,043,647	397,922
2006	1,073,647	343,984
2007	1,103,647	288,150
2008	1,138,647	230,560
2009 to 2011	3,368,395	325,171
	\$ 8,736,629	\$ 2,035,940

Note 6. Insurance Programs

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

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

The Hospital is also self-insured for medical, dental, and workers' compensation claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

The claims liabilities at June 30, 2003 and 2002 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the final statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	2003	2002
Claims liability, beginning of year	\$ 250,000	\$ 398,879
Current year claims and changes in estimates	2,870,205	1,452,990
Current year claims payments	(2,570,205)	(1,601,869)
Claims liability, end of year	<u>\$ 550,000</u>	<u>\$ 250,000</u>

Note 7. Pension Plan

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

Plan Description

All employees who have at least 2 years of continuous service and have worked an average of 20 or more hours a week are eligible to join the Plan on its next anniversary date. Employees who retire at or after the age of 62 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest 3 anniversary dates preceding retirement or termination for each year of creditable service. Plan benefits vest on a graded scale beginning at 25 percent for 5 years of service and increasing 5 percent per annum for each of the next 5 years and 10 percent per annum for each of the following 5 years.

Employees leaving employment after 5 years of creditable service but before attaining retirement age are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

Funding Policy

Employees are required to contribute 1 percent of their monthly earnings up to \$400 plus 2 percent of their monthly earnings in excess of \$400. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent determined as of the beginning of the Plan year. No contributions were made during the years ended June 30, 2002, 2001, or 2000.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in February 2003 for the plan year ending June 30, 2003, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2003, 2002, and 2001, were as follows:

	2003	2002	2001
Discount rates	8.00%	8.00%	8.00%
Rates of increase in compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	8.00%	8.00%	8.00%

Based on the latest actuarial valuation in February 2003, the following tables set forth the Plan's funded status as of June 30, 2003, 2002, and 2001:

	2003	2002	2001
Actuarial value of plan assets	\$ 12,933,588	\$ 13,521,947	\$ 13,652,959
Actuarial accrued liability	\$ 12,764,862	\$ 12,867,783	\$ 12,899,424
Funded excess	\$ 168,726	\$ 654,164	\$ 753,535
Funded ratio	101.3%	105.08%	105.84%
Annual covered payroll	\$ 11,693,447	\$ 10,534,152	\$ 10,637,475
Funded excess as a percentage of annual covered payroll	1.44%	6.21%	7.08%

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

The Hospital had an annual required contribution of \$365,000 for the year ended June 30, 2003. The Hospital had no annual required contribution, annual pension cost or net pension obligation at June 30, 2002 or 2001, as calculated under GASB 27 "Accounting for Pensions by State and Local Governmental Employers."

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

During 2002, the Board approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved to amend the current vesting schedule to provide for full vesting at five years as well as to fully vest employees who may be included in any reduction in workforce.

Note 8. Business and Credit Concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of receivables from patients and third-party payors at June 30, 2003 and 2002, was as follows:

	2003	2002
Medicare	35%	35%
Medicaid	11	8
Commercial insurance companies, health maintenance organizations, and other	30	39
Self-pay patients	24	18
	<u>100%</u>	<u>100%</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2003 and 2002**

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

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

	2003	2002
Medicare	52%	54%
Medicaid	14	13
Commercial insurance companies and health maintenance organizations	28	29
Self-pay patients and other	6	4
	100%	100%

Note 9. Other Operating Revenues

Other operating revenues recognized during the years ended June 30, 2003 and 2002, consisted of the following:

	2003	2002
Physician revenues	\$ 3,456,256	\$ 3,097,745
Cafeteria revenues	307,032	295,340
Other	190,411	123,949
Total Other Operating Revenues	\$ 3,953,699	\$ 3,517,034

Note 10. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.



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

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

Our independent auditor's report on the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of and for the years ended June 30, 2003 and 2002, appears on pages 1 and 2. Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The required supplemental schedule contained on page 29, which is also the responsibility of the Hospital's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Horne CPA Group

Jackson, Mississippi
August 26, 2003

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Schedules of Board of Commissioners and Salaries
Years Ended June 30, 2003 and 2002**

	2003	2002
Hubert C. Owens, M.D.	\$ 25	\$ 300
Nick Adams	25	300
Jerry Broudreux	275	275
Etta Kay Hearn	275	250
Catherine Pourciau	225	300
Robert Williams, Jr.	300	250
Steve Stein	250	275
Richard Sessoms	275	-
Judy Myles	250	50
Patricia D. Gauthier	275	-
John V. Richey, M.D.	300	50
	<u>\$ 2,475</u>	<u>\$ 2,050</u>



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**INDEPENDENT AUDITOR'S 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**

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

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of and for the year ended June 30, 2003, and have issued our report thereon dated August 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting.

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

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

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

Jackson, Mississippi
August 26, 2003



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August 26, 2003

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

We have audited the financial statements of the Hospital Service District No. 1 of East Baton Rouge Parish Louisiana, d/b/a Lane Memorial Hospital (the Hospital), as of and for the years ended June 30, 2003 and 2002, and have issued a draft of our report thereon dated August 26, 2003.

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Hospital for the year ended June 30, 2003. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the Hospital's practices and procedures.

Reconciliation of Accounts and Closing Procedures

We noted certain general ledger accounts that were not reconciled in a timely manner or were reconciled incorrectly. We also noted that some standard journal entries were being incorrectly posted to the general ledger each month. We recommend all significant accounts be reconciled timely to the general ledger balance and reviewed on a monthly basis. We also recommend that standard journal entries be reviewed and updated periodically to ensure that they should be made and if so, that they are for the proper amounts.

Self-Insured Medical Benefits

The Hospital provides medical benefits to its eligible employees under a self-insured medical arrangement. The Hospital's expense related to providing this benefit increased by approximately \$1.4 million during the current year. The Hospital has specific reinsurance to cover individuals that incur more than \$60,000 in claims during the calendar year. The Hospital also has aggregate reinsurance that pools all of the individuals who exceed the \$60,000 specific reinsurance amount. The aggregate reinsurance for the individuals in this pool is for the amount that they collectively exceed an additional \$74,917. The aggregate reinsurance only covers the pooled individuals over \$60,000 with no aggregate reinsurance on the self-insured claims for all of the eligible Hospital employees. The Hospital should explore additional possibilities for obtaining full aggregate reinsurance that would cover the entire amount of claims paid during the calendar year and would not be limited to certain individual employee claim limits.

Manual Inventory Records

Many departments manually extend and total count sheets to arrive at a total inventory value. We recommend that the Hospital implement a policy to perform this procedure using an electronic application, such as Excel. The use of an electronic application could help detect errors as well as increase the efficiency of the process.

Inventory Count Procedures

Materials Management department employees perform the actual inventory count process and verify their own test counts. Errors or losses in inventories could go undetected due to no independent verification of the department's inventory. The Materials Management department is responsible for both the custody of the inventories as well as the record keeping related to those inventories. We recommend having an accounting staff member or another employee independent of Materials Management perform test counts on a random basis to help ensure that inventory counts were performed correctly.

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

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

Home CPA Group