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Lane Memorial Hospital

1998

Financial Statements

These financial statements are prepared in accordance with generally accepted accounting principles. A copy of the report has been submitted to the Board, its committees, 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 APR 1 1999







**HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
IRMA LANE MEMORIAL HOSPITAL**

FINANCIAL STATEMENTS

JUNE 30, 1998 and 1997

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Pasdelhwaite & Netterville

A Professional Accounting Corporation
A LIMITED LIABILITY PUBLIC ACCOUNTANT FIRM

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) as of June 30, 1998, and the related statements of operations, changes in fund balances, and cash flows for the year 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 audit. The financial statements of the Hospital as of and for the year ended June 30, 1997 were audited by another auditor whose report dated November 9, 1997, expressed an unqualified opinion on these statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) as of June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 1998, 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.

Pasdelhwaite & Netterville

Baton Rouge, Louisiana
August 31, 1998



Purdie, Hwatt & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

8000 LAFAYETTE BLVD., SUITE 1000 ■ BAYON TERRACE, LOUISIANA 70020 ■ TELEPHONE (504) 865-4000 ■ FAX (504) 865-8011

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

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

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) as of and for the year ended June 30, 1998, and have issued our report thereon dated August 31, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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.

This report is intended for the information of the Board of Commissioners, management of Lusher Memorial Hospital, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Postlethwaite & Natterville

Baton Rouge, Louisiana
August 11, 1998

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON HOULLE PARISH, LOUISIANA
4343 LANE MEMORIAL HOSPITAL

BALANCE SHEETS
JUNE 30, 1998 and 1997

ASSETS

	<u>1998</u>	<u>1997</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 3,413,071	\$ 3,170,358
Certificates of deposit	3,250,000	5,989,000
Short-term investments	5,050,531	-
Assets limited as to use	993,377	583,645
Patient accounts receivable, net of allowance for doubtful accounts of \$1,710,257 in 1998 and \$1,791,016 in 1997	5,374,383	4,208,053
Estimated third party payer settlements	503,137	1,159,445
Other receivables	175,918	203,525
Inventory	884,197	374,518
Other current assets	228,436	318,708
Total current assets	<u>18,875,936</u>	<u>18,416,997</u>
<u>ASSETS LIMITED AS TO USE</u>		
Held by trustee in accordance with bond indentures temporarily designated for future capital improvements	478,595	457,529
	<u>2,791,323</u>	<u>2,427,468</u>
Total assets limited as to use	2,791,323	2,884,997
Less: amounts required to meet current liabilities	<u>(955,372)</u>	<u>(883,685)</u>
Noncurrent assets limited as to use	<u>2,836,582</u>	<u>2,501,312</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>24,877,245</u>	<u>22,846,320</u>
<u>OTHER ASSETS</u>		
Deferred financing costs	75,449	78,080
Other	-	765
Total other assets	<u>75,449</u>	<u>78,845</u>
TOTAL ASSETS	<u>\$ 46,882,231</u>	<u>\$ 47,643,497</u>

The accompanying notes are an integral part of these statements.



LIABILITIES AND FUND BALANCE

	<u>1998</u>	<u>1997</u>
<u>CURRENT LIABILITIES</u>		
Current maturities of long-term debt	\$ 415,000	\$ 409,000
Accounts payable	1,816,787	1,563,864
Other current payables	582,381	335,418
Unincurred third-party pay or settlements	815,000	883,602
Accrued expenses	897,594	878,414
Payroll taxes payable	272,184	347,885
Total current liabilities	<u>3,908,346</u>	<u>4,068,183</u>
<u>LONG-TERM DEBT, net of current maturities</u>	<u>3,295,000</u>	<u>2,710,000</u>
Total liabilities	11,213,346	11,778,183
<u>UNRESTRICTED FUND BALANCE</u>	<u>34,879,442</u>	<u>31,869,982</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 46,092,788</u>	<u>\$ 43,648,165</u>

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON Rouge PARISH, LOUISIANA
414 LANE MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 1998 and 1997

	1998	1997
OPERATING REVENUES		
Net patient service revenues	\$ 31,771,844	\$ 32,009,389
Other operating revenues	3,050,658	3,313,068
Total operating revenues	<u>34,822,502</u>	<u>35,322,457</u>
OPERATING EXPENSES		
Salaries	15,387,348	14,988,376
Fringe benefits	2,186,991	2,308,881
Pharmaceutical supplies	1,242,952	1,350,712
Medical supplies	3,308,491	3,852,814
Professional fees	1,673,807	1,854,089
Contracted services	1,851,909	1,832,334
Utilities	658,833	822,421
Repairs and maintenance	631,292	878,780
Insurance	478,788	591,544
Depreciation and amortization	1,803,283	1,875,521
Interest expense	189,808	852,746
Provision for doubtful accounts	1,758,798	1,843,719
Other	1,266,792	1,238,181
Total operating expenses	<u>31,653,608</u>	<u>32,834,128</u>
INCOME FROM OPERATIONS		
	<u>3,168,894</u>	<u>2,488,329</u>
NONOPERATING REVENUES		
Investment income	318,261	697,513
Other nonoperating revenues	151,851	175,888
Total nonoperating revenues	<u>470,112</u>	<u>873,401</u>
EXCESS OF REVENUES OVER EXPENSES		
	<u>\$ 2,698,782</u>	<u>\$ 3,361,730</u>

The accompanying notes are an integral part of these statements.

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
401/2 LANE MEMORIAL HOSPITAL

STATEMENTS OF CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1986 AND 1987

Fund Balance at June 30, 1986	\$ 28,788,479
Excess of revenues over expenses for the year ended June 30, 1987	<u>3,021,490</u>
Fund Balance at June 30, 1987	31,809,969
Excess of revenues over expenses for the year ended June 30, 1988	<u>2,099,476</u>
Fund Balance at June 30, 1988	<u>\$ 33,909,445</u>

The accompanying notes are an integral part of these statements.

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON BOUGE PARISH, LOUISIANA
at the LAKE BIERMIAL HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDING JUNE 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from operations	\$ 2,108,254	\$ 2,208,149
Interest expense considered capital financing activity	109,088	192,246
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,050,285	1,675,251
Loss on disposals of property and equipment	76,027	24,218
Provision for doubtful accounts	1,248,788	1,645,719
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,922,226)	(849,677)
Estimated third-party payer settlements	163,304	1,297,759
Other receivables	30,008	(2,979)
Inventories	(33,219)	8,739
Other current assets	(83,208)	44,199
Accounts payable and other current payables	(89,824)	(84,411)
Accrued expenses and payroll direct payable	5,289	(86,722)
Net cash provided by operating activities	<u>1,698,487</u>	<u>6,054,258</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(3,188,268)	(6,698,240)
Proceeds from sales of property and equipment	2,468	(88,880)
Principal paid on long-term debt	(489,888)	(385,086)
Interest paid on long-term debt	(422,212)	(443,888)
Net cash used in investing activities	<u>(4,097,900)</u>	<u>(7,516,094)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in certificates of deposit whose original maturities exceeded three months	4,608,080	680,000
Interest and dividends on investments	318,284	697,232
Other nonoperating income	153,851	175,888
Net cash provided by investing activities	<u>5,079,215</u>	<u>1,453,120</u>

The accompanying notes are an integral part of these statements.



HOSPITAL SERVICE DISTRICT No. 1 OF
 EAST BATON ROUGE PARISH, LOUISIANA
 47½ LANE MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Net increase in cash and cash equivalents	\$ 3,954,324	\$ 211,797
Cash and cash equivalents - beginning of year	<u>6,861,555</u>	<u>6,649,808</u>
Cash and cash equivalents - end of year	<u>\$ 10,815,879</u>	<u>\$ 6,861,605</u>
<u>Reconciliation of cash and cash equivalents to the balance sheet:</u>		
Cash	\$ 5,417,671	\$ 6,135,398
Certificates of deposit	1,000,000	-
Short-term investments	3,658,331	-
Cash and cash equivalents in assets limited as to use:		
Held by trustee in accordance with bond indentures	478,585	497,529
Internally designated for future capital improvements	<u>863,512</u>	<u>227,468</u>
Total cash and cash equivalents	<u>\$ 10,815,879</u>	<u>\$ 6,861,605</u>

The accompanying notes are an integral part of these statements.



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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, (the Hospital) is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (City - Parish) on June 12, 1957, under the provisions of Chapter 30 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 30, *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 24:217, to the guidance set forth in the Louisiana Governmental Accounting Guide, and to the industry, such guide, *Handbook of Health Care Organizations* published by the American Institute of Certified Public Accountants.

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

Financial reporting entity

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

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the principal 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 component units, which are defined by GASB Statement No. 14 as other legally separate organizations for which the elected officials are financially accountable. There are no other primary governments with which the Hospital has a significant relationship.

Fund accounting

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less.

Securities and investment income

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

Realized investments are recorded at their market value at the date of receipt, which is then recorded as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. These realized gains and losses flow through the Hospital's yearly activities.

Assets limited as to use

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

Allowance for doubtful accounts

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

Inventories

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

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST RUTHER FORDGE PARISH, LOUISIANA
JIMMIE LANE MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Deposits and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 48 years.

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

Cost of borrowing

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

Net patient service revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment assignments 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Estimated adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care

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

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
OLIVE LAKE MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (cont. from 1)

Donor-restricted gifts

If unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Risk management

The Hospital is exposed to various risks of loss from theft, death of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial firestorm 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

As a local governmental entity, the Hospital is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been included in the financial statements.

Reclassification

Certain reclassifications have been made on the 1987 financial statements to conform with the 1988 presentation.

2. Net patient service revenue

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

- **Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per-discharge that include defined capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt inpatient services and outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a variable rate with final settlement determined after submission of an annual cost report by the Hospital and an audit by the Medicare fiscal intermediary.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Net patient service revenues (continued)

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

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

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

Presented below is a summary of net patient service revenues for the years ended June 30, 1998 and 1997:

	1998	1997
Gross patient services revenue	\$ 35,383,497	\$ 34,549,184
Less: Provisions for contractual adjustments	(2,212,053)	(2,435,795)
Net patient service revenues	\$ 33,171,444	\$ 32,113,389

3. Cash and investments

At June 30, 1998, the carrying value of the Hospital's deposits were as follows:

	1998	1997
Petty cash	\$ 2,800	\$ 2,180
Demand deposit accounts	5,928,443	6,838,255
Certificates of deposit	1,478,080	7,908,080
Short-term investments	1,535,836	-
	\$ 14,318,279	\$ 14,968,515

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, 1998, the Hospital had \$11,843,740 in deposits (collateral bank balances). Of these bank balances, \$460,124 was covered by federal depository insurance, and the remaining was secured by collateral owned by the fiscal agent bank.



**HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BAYOU HOUGE PARISH, LOUISIANA
d/b/a LAKE MEMORIAL HOSPITAL**

NOTES TO THE FINANCIAL STATEMENTS

3. Cash and investments (continued)

Under Louisiana Revised Statutes 38:1271 and 38:1815, 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 institutions, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

4. Property and equipment

Net property and equipment at June 30, 1998 and 1997 consisted of the following:

	1998	1997
Land and land improvements	\$ 1,568,297	\$ 954,623
Buildings	20,198,885	15,081,811
Fixed equipment	3,844,141	3,834,141
Movable and other equipment	34,998,794	15,198,112
Physicians' office buildings and equipment	2,184,809	1,103,800
	42,695,117	34,832,489
Less: accumulated depreciation	(18,671,587)	(12,887,883)
	24,023,530	21,944,606
Construction-in-progress	903,712	5,601,218
Property and equipment, net	\$ 24,927,242	\$ 27,545,824

Depreciation expense amounted to \$1,889,858 and \$1,668,132 during the years ended June 30, 1998 and 1997, respectively.

Additions to property and equipment included approximately \$312,584 and \$248,747 of capitalised interest during the years ended June 30, 1998 and 1997, respectively. Total interest costs incurred by the acquisition of these capitalised amounts were \$422,512 and \$415,888 during the years ended June 30, 1998 and 1997, respectively.

Construction contracts of approximately \$7,608,860 exist for additions to and the remodeling of existing facilities. At June 30, 1998, the remaining commitment on these contracts totaled approximately \$708,080.



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

NOTES TO THE FINANCIAL STATEMENTS

5. Long-term Debt

A summary of long-term debt at June 30, 1998 and 1997 is as follows:

	<u>1998</u>	<u>1997</u>
Hospital Revenue and Refunding Bonds (Series 1996) interest rates ranging from 4.75% to 5.68%, due in varying semi-annual bond installments through 02/01/11; secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.	\$ 7,118,000	\$ 8,115,000
Less: current maturities	<u>(425,000)</u>	<u>(693,000)</u>
Long-term debt, net of current maturities	<u>\$ 6,693,000</u>	<u>\$ 7,422,000</u>

The amortization expenses related to the bonds totaled \$2,631 and \$3,873 during the years ended June 30, 1998 and 1997, respectively.

The outstanding bonds are scheduled to mature as follows:

<u>Year ending</u> <u>June 30</u>	<u>Amount</u>
1999	\$ 425,000
2000	458,000
2001	475,000
2002	908,000
2003	525,000
Thereafter	<u>5,355,000</u>
	7,118,000
Less: current portion of long-term debt	<u>(425,000)</u>
Total long-term debt, net of current maturities	<u>\$ 6,693,000</u>

As part of the bond agreement, the Hospital has agreed to comply with various covenants. The covenants consist, primarily, of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with all of the applicable covenants at June 30, 1998.

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BAYOU RIDGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS

4. 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 \$100,000 per claim (recovery of additional amounts for future medical expense provided by law).

The Hospital also has a \$1,000,000 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 method in excess general liability policy provides additional excess coverage of \$9,000,000 difference per occurrence and \$9,000,000 per annual aggregate.

The Hospital is also self-insured for medical, dental, and workers' compensation claims up to predetermined capless amounts. Claims in excess of the cap-less 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.

7. Pension plan

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

Plan Description. All employees who have at least two years of continuous service and have worked an average of 28 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 5 anniversary dates (preceding retirement or termination for each year of creditable service). Plan benefits vest on a graded scale beginning at 25% for 5 years of service and increasing 5% per annum for each of the next 5 years and 10% per annum for each of the following 5 years.

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

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70799, or by calling: (773) 602-1800.

Funding Policy. Employees are required to contribute 1.00% of their monthly earnings up to \$408 plus 2.00% of their monthly earnings in excess of \$400. The Hospital's total payroll totalled \$15,367,140 and \$14,986,376 during the years ended June 30, 1998 and 1997, respectively, and covered payroll (compensation paid by the Hospital to active employees covered by the Plan to which contributions to the Plan are based) totalled \$8,829,633 and \$8,484,816 during the years ended June 30, 1998 and 1997, respectively.

HOSPITAL SERVICE DISTRICT No. 1 OF
 EAST BAYVIEW BOHIOLE PARISH, LOUISIANA
 aka LANE MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS

7. Pension plan (continued)

The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize un-funded 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 140% determined as of the beginning of the Plan year. The Hospital's contributions to the Plan totaled \$268,147 during the year ended June 30, 1997. No contributions were made during the year ended June 30, 1998.

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

Funding Status. The amount shown below as a pension benefit obligation was determined in part of an actuarial valuation as of June 30, 1998 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 employee 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 were as follows:

	1998	1997
Discount rates	8.00%	8.00%
Rate of increase in compensation levels	4.00%	4.00%
Expected long-term rate of return on assets	8.00%	8.00%

The following table sets forth the Hospital's annual pension cost and net pension obligations to the Plan for 1998 and 1997:

	1998	1997
Annual required contribution	\$ -	\$ 268,147
Increase in net pension obligation	-	-
Adjustment to annual required contribution	-	-
Annual pension cost	-	268,147
Contributions made	-	(268,147)
Increase (decrease) in net pension obligation	-	-
Net pension obligation - beginning of year	-	-
Net pension obligation - end of year	\$ -	\$ -

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

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

NOTES TO THE FINANCIAL STATEMENTS

8. Business and credit concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk, consist principally of uninsured accounts receivable and temporary cash investments.

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, 1998 was as follows:

Medicare	31.08%
Medicaid	6.63
Commercial insurance companies	18.27
Health maintenance organizations	8.38
Self-pay patients and other	<u>29.63</u>
	<u>100.00%</u>

9. Other operating revenues

Other operating revenues recognized during the years ended June 30, 1998 and 1997 consisted of the following:

	<u>1998</u>	<u>1997</u>
Contact services	\$ 831,422	\$ 588,858
Satellite revenues	1,758,540	1,718,897
Cafeteria revenues	283,826	281,596
Physician services	71,848	21,561
Other	<u>181,868</u>	<u>181,855</u>
Total other operating revenues	<u>\$ 3,028,498</u>	<u>\$ 2,133,667</u>

10. Commitments and contingencies

The Hospital is involved in various legal actions and claims that arise as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital. Accordingly, no provision has been made in the financial statements related to these claims.

HOSPITAL SERVICE DISTRICT No. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
ORIG LANE MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS

11. Board of Commissioners

The following amounts were paid to members of the Board of Commissioners during the year ended June 30, 1995:

Hubert C. Owens, M.D.	\$	250
Mike Adams		275
Jimmy Desobriere		275
Willie E. Newman		55
Emma Kay Hunt		250
Calvernie Pinnick		250
Robert Williams, Jr.		250
Steve Soto		175
		<u>1,800</u>



Revenues

During our test of revenues, we noted the following:

- 1) One of the revenue procedures selected for testing, which was billed and actually collected, lacked proper documentation of being performed. When the patient file was reviewed by a qualified medical employee, the employee stated that, given the diagnosis and the other procedures being performed, it was highly unlikely that this procedure was performed on this patient.
- 2) One of the revenue procedures selected for testing was coded to the wrong patient account.

While these two particular posting errors did not have a material effect on the financial statements, management should be aware of the errors and the potential errors that could result should such posting errors continue to be made. Management should also communicate their concerns to the employees responsible for posting these types of transactions and make them aware of the potential ramifications.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Hospital personnel, and we will be pleased to further discuss, perform any additional studies, or to assist you in implementing these recommendations at your convenience.

We would like to express our appreciation for the cooperation and courtesies extended to us during our audit procedures. We would be pleased to discuss the above matters or respond to any questions, at your convenience.

This report is intended solely for the information and use of the Finance Committee, the Board of Commissioners, management, and others within the organization.

Sincerely,

Pentthornite & Nettowille



Lane Memorial Hospital

CONFIDENTIAL

Rayford E. Jones, D.O., M.D.
Chief Executive Officer

David L. Winters, D.O., M.D.
President

Joseph E. Johnson, M.D.
Executive Vice President

COMMUNICATIONS
Edward C. Quinn, Jr., Ph.D.
Chairman

M. J. Stone
Amy Frankfort
Eric Rappaport
Lorraine Pearson, D.M.
Marilyn Miller
Franklynne J.

December 15, 1998

Legislative Auditor
1800 N 3rd Street
Baton Rouge, LA 70802

**Re: Response to Management Letter
FTL-67098**

Dear Sir:

Please accept this letter as our response to the management letter issued by Parliothwick & Natorville as a result of our annual audit dated June 30, 1998.

Property and Equipment

The book value of the equipment (\$68,374) was written-off in September 1998. The accounting department continues to work closely with Materials Management as well as department managers in order to update the detailed property and equipment listings on a monthly to quarterly basis. Also, the accounting department now inquires when a large piece of equipment is bought if there was any trade-in, or if a piece of equipment was made obsolete by the new purchase.

Inventory

The hospital has budgeted in the 1998-99 capital equipment budget to purchase an automated medication dispensing system. This will greatly reduce the risk of potential theft of controlled drugs. The hospital has not experienced a problem with theft in the pharmacy. The hospital has considered the use of an automated inventory system, but has not felt that it would be cost-effective at this time.

Recruiting

The two ethics cases investigated the day they were discussed and the employees in the areas involved were made aware of the discrepancies and the related consequences. The hospital is in the process of getting in place a Corporate Compliance Program, which will be in effect in the near future. The purpose of this program will be to educate our employees on the importance of issues relating to billing and documentation.

December 15, 1998

Page 2

Our employees are continually made aware of compliance issues and the potential exposure the hospital has regarding such issues.

If you have any further questions, please do not hesitate to contact me at (225) 658-4300.

Very truly yours,



David Weisler, CPA
Chief Financial Officer

DW:ada
CC: File