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

GALLIANO, LOUISIANA

Management's Discussion and Analysis and
Audits of Financial Statements

June 30, 2004
and
June 30, 2003

CONTENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL's** (Hospital) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended June 30, 2004. Please read it in conjunction with the financial statements in this report. *(dollar amounts discussed below have been rounded to the nearest thousand where indicated)*

Financial Highlights

- The Hospital's net assets increased by $39,584 (or 0.3%) during 2004. By comparison the Hospital's net assets decreased by $533,579 (or 4.2%) during 2003.
- The Hospital reported operating losses in the fiscal years ended June 30, 2004 and 2003. This loss decreased from a loss of $1,734,411 in 2003 to a loss of $918,853 in 2004.
- Nonoperating revenues remained relatively constant at $1,116,732 during the year ended June 30, 2004, as compared to $1,214,188 during the year ended June 30, 2003. Interest costs reported as expense increased from $13,356 in 2003 to $158,295 in 2004, reflecting a reduction of capitalization of such costs during 2004.
- The Hospital decreased the principal balances of bonds, notes payable and certificates of indebtedness by a total of $451,400 during the year ended June 30, 2004.

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 the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Hospital 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 year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets 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 and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The 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 3. The Hospital's total net assets increased from $12,096,224 at June 30, 2003 to $12,135,808 at June 30, 2004, an increase of $39,584. Between June 30, 2002 and June 30, 2003, the total net assets decreased from $12,629,803 to $12,096,224, a decrease of $533,579.

A summary of the Hospital's Balance Sheet is presented in Table 1 below:

TABLE 1
Condensed Balance Sheets
(In thousands)

	June 30, 2004	June 30, 2003	June 30, 2002
Total Current Assets	$ 6,087	$ 5,657	$ 5,623
Capital Assets – Net	9,499	9,782	9,596
Other Assets, Including Board-Designated Investments	1,405	2,263	3,171
Total Assets	$ 16,991	$ 17,702	$ 18,390
Current Liabilities	$ 1,721	$ 2,055	$ 2,253
Long-Term Debt Outstanding and Other Long-Term Liabilities	3,135	3,550	3,507
Total Liabilities	4,856	5,605	5,760
Net Assets	12,135	12,097	12,630
Total Liabilities and Net Assets	$ 16,991	$ 17,702	$ 18,390

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets (Continued)

A significant component of the change in the Hospital's assets during the year ended June 30, 2004 is the decrease in cash, certificates of deposits and assets whose use is limited which were used to fund operations and make payments on outstanding debt. Additionally, capital assets net of depreciation decreased from $9,781,684 at June 30, 2003 to $9,498,540 at June 30, 2004. This net decrease was substantially attributed to scheduled depreciation recorded in excess of current year property additions. The same factors were largely responsible for the overall decrease in assets from June 30, 2002 to June 30, 2003. While overall assets have decreased in recent years, the Hospitals current assets exceeded current liabilities as of June 30, 2004 and 2003 by $4,366,785 and by $3,601,350, respectively. This reflects an overall improvement during 2004 in the Hospital's current ratio of approximately 20% during 2004.

Summary of Revenue, Expenses and Changes in Net Assets

In the fiscal year ended June 30, 2004, the Hospital's net assets increased by $39,584 as shown in Table 2 below. This increase is made up of several different components. It represents an improvement over the decrease in net assets reported during each of the two preceeding fiscal years as shown below:

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets
(In Thousands)

	Years Ended June 30,		
	2004	2003	2002
Net Patient Service Revenue	$ 19,247	$ 18,475	$ 16,632
Other Revenue, Net	2,057	1,238	1,080
Total Operating Revenue	21,304	19,713	17,712
Salaries	7,612	7,291	6,599
Supplies and Other	6,358	5,936	5,346
Purchased Services	5,893	5,940	5,588
Depreciation and Amortization	927	913	873
Employee Benefits	1,433	1,366	1,270
Total Operating Expenses	22,223	21,446	19,676
Loss from Operations	(919)	(1,733)	(1,964)
Nonoperating Income (Expense)	958	1,200	1,091
Change in Net Assets	39	(533)	(873)
Net Assets – Beginning of Year	12,096	12,629	13,502
Net Assets – End of Year	$ 12,135	$ 12,096	$ 12,629

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income (loss)—generally, the difference between net patient service and premium revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's entire operating history. The Hospital's operations began the 1950's as a hospital service district, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the Parish's lower income residents. However, in each of the past two years, operating losses have decreased. Losses in 2004 deceased by $815,558 (or 47 percent) from the operating loss reported in 2003. Operating losses in 2003 decreased by $229,150 (or 12 percent) from the loss reported in 2002.

The primary components of these decreased operating losses are

- An increase in net patient service revenue of $772,423 from 2003 to 2004. This increase reflects an overall increase of $2,797,911 (or approximately 7%) of gross patient service revenues from 2003 to 2004. This increase in gross revenue is largely reflective of the adjustments of the Hospital's chargemaster rates during the year end June 30, 2004 and changes in inpatient and outpatient volumes. Overall, the Hospital's ratio of net patient service revenue to gross patient service charges remained consistent at 45% for the year ended June 30, 2004 as compared to 46% for the year ended June 30, 2003.

  The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Hospital when it was originally established. The level of services provided to these patients increased by $523,526 in 2004 compared to 2003. In 2003, the costs of this uncompensated care increased by $11,491 over the year ended June 30, 2002. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

- An overall increase in other operating income which predominately reflects an increase in disproportionate share revenues recognized in each of the past two years.

- Increases in combined salaries and benefits costs for the hospital's employees of 4 percent in 2004, and 10 percent in 2003 were due to incremental increases in physicians salaries, and required market adjustments in salaries to remain competitive with other healthcare salaries within the industry.

- The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for medical supplies and prescription drugs. In 2002, medical supplies, prescription drugs and similar operating costs totaled $5.3 million. In 2003, they totaled $5.95 million, or 28 percent of total expenses and an increase of 11 percent over 2002. In 2004, these same costs totaled $6.4 million, representing 29 percent of total expenses and an increase of 7 percent over 2003. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

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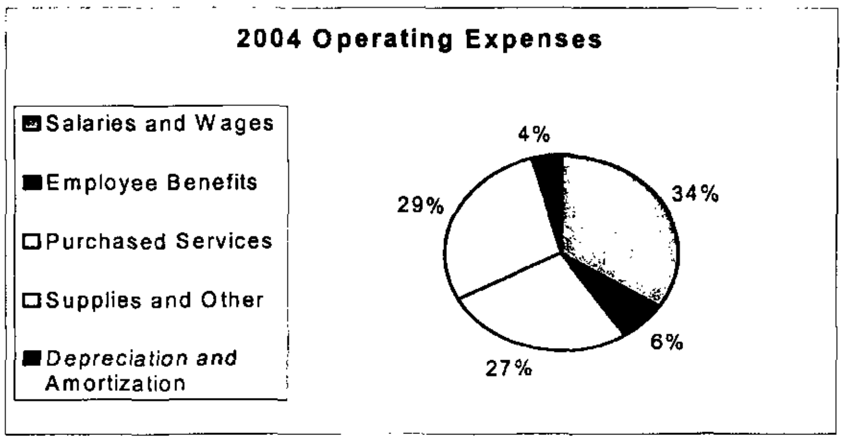
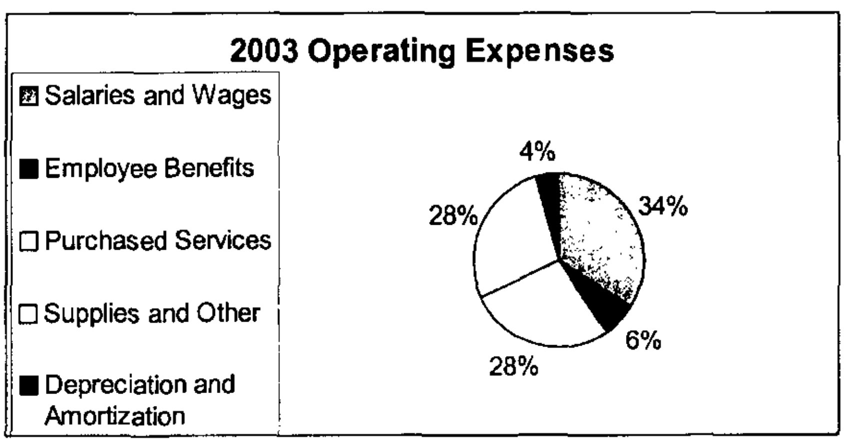
MANAGEMENT'S DISCUSSION AND ANALYSIS

While overall operating expenses increased in both the years ended June 30, 2004 and 2003 by 4 percent and 9 percent, respectively, the overall makeup of total operating expenses has remained relatively constant as demonstrated by the charts below:





Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital Service District, interest and other investment earnings and losses. Overall tax revenues recognized during the past two years have remained relatively consistent at $1,095,833 for 2004 as compared to $1,150,433 for 2003. Total nonoperating revenue net of interest expenses decreased by $242,395 from 2003 to 2004. This change was largely due to the recognition of $158,295 of interest costs as expense upon completion of various construction and renovation projects that were ongoing in the prior year.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

The Hospital's capital asset activities are included in Table 4 below:

TABLE 4
Capital Assets
(In thousands)

	June 30, 2004	June 30, 2003	Dollar Change	Percentage Change
Building and Improvements	$ 15,034	$ 14,435	$ 599	4.15%
Equipment	10,972	10,883	89	0.82%
Vehicles	114	114	-	0.00%
Subtotal	26,120	25,432	688	2.71%
Less: Accumulated Depreciation and Amortization	(17,008)	(16,080)	(928)	5.77%
Land	387	430	(43)	-10.00%
Net Property, Plant and Equipment	$ 9,499	$ 9,782	$ (283)	-2.89%

Net property, plant and equipment increased as the Hospital expended funds to enhance existing facilities and purchase necessary equipment used in operations. This increase in capital assets of approximately $687,000 was offset by $927,000 of depreciation expense recognized on new and existing assets.

Long-Term Debt

At June 30, 2004, the Hospital had a total of $3,252,002 in short-term and long-term debt outstanding comprised predominately of series 2001 revenue bond issue. This amount decreased by the net amount of $441,400 from the end of the prior fiscal year, due to principal payments on existing debt. More detailed information about the Hospital's long-term debt and other long-term liabilities is presented in the notes to basic financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital Administration.

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

We have audited the accompanying financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL**, a component unit of the Lafourche Parish Council, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of **LAFOURCHE PARISH SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL**'s management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL** as of June 30, 2004 and 2003, 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 December 1, 2004, on our consideration of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

110 Veterans Memorial Boulevard, Suite 200, Metairie, LA 70005-4958 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 202, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
www.laporte.com

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

A Professional Accounting Corporation

December 1, 2004

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

ASSETS

	June 30, 2004	June 30, 2003
CURRENT ASSETS		
Cash and Cash Equivalents	$ 382,234	$ 689,015
Certificates of Deposit	100,000	200,000
Assets Whose Use is Limited	115,000	105,000
Patient Accounts Receivable, Net of Estimated Uncollectibles of $1,976,874 for 2004, and $1,212,769 for 2003	4,108,851	3,679,017
Estimated Third Party Payor Settlements	226,388	-
Inventory Supplies - at Cost	832,246	671,096
Prepaid Expenses	228,707	185,954
Other Receivables	93,866	126,614
Total Current Assets	6,087,292	5,656,696
ASSETS WHOSE USE IS LIMITED		
By Agreements with Third-Party Payors for Funded Depreciation	508,629	893,049
Under Indenture Agreement	-	224,173
By Board for Indenture Reserves	210,947	239,762
Total Assets Whose Use is Limited	719,576	1,356,984
Less: Amounts Required to Meet Current Obligations	115,000	105,000
Noncurrent Assets Whose Use is Limited	604,576	1,251,984
CAPITAL ASSETS, NET	9,498,540	9,781,684
OTHER ASSETS		
Other Receivables, Net of Estimated Uncollectibles of $618,994 for 2004 and 2003	140,531	122,947
Unamortized Bond Costs	28,292	29,981
Investment in Cath Lab	245,518	471,473
Other Assets	386,566	386,805
Total Other Assets	800,907	1,011,206
Total Assets	$ 16,991,315	$ 17,701,570

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

LIABILITIES AND NET ASSETS

	June 30, 2004	June 30, 2003
CURRENT LIABILITIES		
Current Maturities of Bonds Payable	$ 115,000	$ 105,000
Accounts Payable - Trade	1,080,385	539,209
Accrued Expenses	400,923	677,435
Estimated Third Party Payor Settlements	-	325,479
Current Maturities of Note Payable	2,002	138,402
Current Maturities of Certificate of Indebtedness	-	200,000
Accrued Interest on Long-Term Debt	50,054	52,389
Payroll Taxes Payable	72,102	17,390
Other Current Liabilities	41	42
Total Current Liabilities	1,720,507	2,055,346
LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES		
Bonds Payable	3,135,000	3,250,000
Estimated Retroactive Adjustments - Third Party Payors	-	300,000
Total Long-Term Liabilities	3,135,000	3,550,000
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	6,246,538	6,512,455
Restricted Net Assets	534,734	893,049
Unrestricted Net Assets	5,354,536	4,690,720
Total Net Assets	12,135,808	12,096,224
Total Liabilities and Net Assets	$ 16,991,315	$ 17,701,570

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For The Years Ended June 30, 2004	2003
NET PATIENT SERVICE REVENUES	$ 19,247,242	$ 18,474,819
OTHER OPERATING REVENUES	2,057,472	1,237,163
Total Revenues	21,304,714	19,711,982
OPERATING EXPENSES		
Salaries and Wages	7,612,482	7,290,694
Employee Benefits	1,432,710	1,365,763
Purchased Services	5,893,543	5,940,159
Supplies and Other	6,357,705	5,936,254
Depreciation and Amortization	927,127	913,523
Total Expenses	22,223,567	21,446,393
Loss from Operations	(918,853)	(1,734,411)
NON-OPERATING REVENUES (EXPENSES)		
Gain on Sale of Securities	-	2,111
Income on Investments Whose Use is Limited:		
By Agreements with Third-Party Payors for Funded Depreciation	20,518	60,946
Under Indenture Agreement and by Board for Indenture Reserves	381	698
Interest Expense	(158,295)	(13,356)
Taxes:		
Bond - Restricted to Bond Retirement Fund	233,717	346,860
Maintenance - Net	862,116	803,573
Non-Operating Revenues (Expenses)	958,437	1,200,832
CHANGE IN NET ASSETS	39,584	(533,579)
NET ASSETS AT BEGINNING OF YEAR	12,096,224	12,629,803
NET ASSETS AT END OF YEAR	$ 12,135,808	$ 12,096,224

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

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

	For The Years Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Patients and Third Party Payors	$ 20,248,968	$ 19,415,500
Payments to Suppliers	(12,013,142)	(12,009,073)
Payments to Employees and for Employee Related Costs	(9,150,973)	(8,694,905)
Net Cash Used In Operating Activities	(915,147)	(1,288,478)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Ad Valorem Taxes - Debt Service	233,717	346,860
Ad Valorem Taxes - Maintenance	862,116	803,573
Net Cash Provided By Non-Capital Financing Activities	1,095,833	1,150,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Asset, Net of Capitalized Interest Costs	(687,007)	(955,003)
Proceeds from Sale of Land	*43,024*	-
Interest Paid on Long-Term Debt	(160,630)	(157,669)
Repayment of Bonds	(105,000)	(100,000)
Payments Made on Certificates of Indebtedness	(200,000)	-
Proceeds from Certificate of Indebtedness	-	200,000
Payments on Note Payable	(136,400)	(188,834)
Net Cash Used in Capital and Related Financing Activities	(1,246,013)	(1,201,506)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	47,004	66,022
Cash Invested in Other Assets	239	(24,619)
Cash Withdrawn from Certificates of Deposit	100,000	100,000
Cash Withdrawn from Assets Whose Use is Limited	611,303	959,583
Net Cash Provided By Investing Activities	758,546	1,100,986
NET DECREASE IN CASH AND CASH EQUIVALENTS	(306,781)	(238,565)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	689,015	927,580
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 382,234	$ 689,015

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

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
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LADY OF THE SEA GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)

	For The Years Ended June 30, 2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Loss From Operations	$ (918,853)	$ (1,734,411)
Adjustments to Reconcile Loss from Operations to Net Cash Used in Operating Activities		
Depreciation	927,127	913,523
Amortization of Bond Costs	1,689	1,689
Share of Loss on Investment in Cath Lab, Net of Distributions Received of $200,000 and $-0-, Respectively	225,955	32,829
Provision for Bad Debts	2,881,650	2,114,556
Changes In:		
Accounts Receivable	(3,311,484)	(2,478,963)
Estimated Third-Party Payor Settlements	(551,867)	(280,543)
Estimated Retroactive Adjustments - Third Party Payors	(300,000)	300,000
Other Receivables	15,164	14,158
Inventory Supplies - At Cost	(161,150)	(23,866)
Prepaid Expenses	(42,753)	(60,016)
Accounts Payable	541,176	(86,874)
Accrued Expenses	(276,512)	7,291
Other Current Liabilities	(1)	(3,494)
Payroll Taxes Payable	54,712	(4,357)
Net Cash Used In Operating Activities	$ (915,147)	$ (1,288,478)
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Unrealized Loss on Investment Securities	$ (26,105)	$ (2,090)
Construction in Progress Capitalized During the Year	$ 64,600	$ 3,110,663

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

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

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL (Hospital), is an acute care facility created pursuant to Louisiana Revised Statutes of 1950, Title 46, Chapter 10, and Ordinance No. 863 of Lafourche Parish Council adopted January 27, 1953. It is the Hospital's mission to provide its community with high quality care and education in a friendly, caring and professional manner.

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

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

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

1. Appointing a voting majority of an organization's governing body, and

    a. The ability of the Council to impose its will on that organization and/or

    b. The potentials for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.

2. Organizations for which the Council does not appoint a voting majority but is fiscally dependent on the Council.

3. Organizations for which the reporting entity's financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY (Continued)

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

ACCOUNTING STANDARDS

The financial statements of the Hospital have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

ENTERPRISE FUND ACCOUNTING

The Hospital utilizes enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

CASH AND CASH EQUIVALENTS

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

ASSETS WHOSE USE IS LIMITED

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

INVENTORY

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

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

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS

Capital Assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives generally ranging from three to 40 years.

NET ASSETS

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

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

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

Unrestricted Net Assets – This component of net assets consists of constraints placed on net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt," as described above.

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

COSTS OF BORROWING

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest earned on these borrowed funds, before the funds are spent on the construction of the capital assets, is also capitalized (refer to Note H).

INVESTMENTS

Investments, including assets limited as to use, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Investments in equity securities with readily determinable fair values and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the balance sheets. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment income, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in nonoperating income.

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS (Continued)

Investments in associated companies are accounted for by the equity method of accounting under which the Hospital's share of the net income of the associated companies is recognized as income in the Hospital's statement of revenue and expenses and added to the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The Hospital has interests in a company that operates a cath lab as detailed in Note M.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. See the disclosure regarding Net Patient Service Revenue below for further discussion of significant estimates involving the revenue recognition methods of the Hospital.

NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

NON-DIRECT RESPONSE ADVERTISING

The Hospital expenses advertising costs as incurred.

GRANTS AND CONTRIBUTIONS

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

UNAMORTIZED BOND COSTS

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

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPERATING REVENUES AND EXPENSES

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

NOTE B

NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization, which is under contract with the Hospital to perform such reviews.

Outpatient services and inpatient psychiatric services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost-based and cost/fee blending reimbursed services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor will limit potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2004. Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits performed thereof by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare Cost Reports have been audited by the Medicare Fiscal Intermediary through June 30, 2001.

NOTE B
NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2000.

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

A summary of the Hospital's net patient service revenue for the years ended June 30, 2004 and 2003 is as follows:

	For the Years Ended June 30,	
	2004	2003
Gross Patient Service Revenue	$ 42,673,433	$ 39,875,522
Less: Contractual Adjustments	(19,860,814)	(19,125,946)
Less: Provision for Bad Debts	(2,881,650)	(2,114,556)
Less: Charity Expense	(683,727)	(160,201)
Net Patient Service Revenue	$ 19,247,242	$ 18,474,819

Since the Hospital serves a disproportionate share of low-income patients, it qualifies for Medicaid Disproportionate Share reimbursements. Medicaid Disproportionate Share reimbursements of $1,512,616 and $954,840 have been recognized in Other Operating Revenue for the years ended June 30, 2004 and 2003, respectively. These amounts are subject to audit by the State of Louisiana.

NOTE C

CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Galliano, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of June 30, 2004 and 2003:

	2004	2003
Medicare	38%	37%
Medicaid	18	15
Commercial	29	36
Private Pay Patients	15	12
	100%	100%

NOTE D

CHARITY CARE

The Hospital does not provide for charity care upon the admission of a patient. It is only after services have been provided, and a patient claims that he or she cannot make payment on his or her account that the Hospital may consider forgiveness of the debt under its charity policy. The Hospital wrote off $683,727 and $160,201 for the years ended June 30, 2004 and 2003, respectively, as charity expense, which is netted against its gross revenue.

NOTE E

BANK DEPOSITS

Cash deposits with financial institutions, which include cash balances whose use is limited or restricted, amounted to $1,127,915 as of June 30, 2004. These balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

NOTE F

DEPOSITS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2004 and 2003. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name.

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

NOTE F

DEPOSITS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED (Continued)

At June 30, 2004 and 2003, the fair value and risk categories of the Hospital's deposits and investments were as follows:

	June 30, 2004	June 30, 2003	Risk Category
Petty Cash	$ 1,368	$ 975	1
Demand Deposit and Money Market Accounts	591,813	1,151,975	1
Certificates of Deposit	100,000	200,000	1
Mutual Funds - U S Government Securities	508,629	359,296	N/A
U. S. Government Agency Security	-	533,753	2
Total	$ 1,201,810	$ 2,245,999	

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

	June 30, 2004	June 30, 2003
Cash and Cash Equivalents	$ 382,234	$ 689,015
Certificates of Deposit	100,000	200,000
Assets Whose Use is Limited:		
By Agreements with Third-Party Payors		
For Funded Depreciation	508,629	893,049
Under Indenture Agreement	-	224,173
By Board for Indenture Reserves	210,947	239,762
Total	$ 1,201,810	$ 2,245,999

Louisiana statutes restrict the types of investments available to the Hospital. During the years ended June 30, 2004 and 2003, the Hospital believes it has complied with these limitations and invested primarily in money market funds and securities issued by the U.S. Treasury and other securities backed by the full faith and credit of the United States of America. The Hospital's investments in U.S. Government obligations are registered investments held by the Hospital or its agent in the Hospital's name.

NOTE F
DEPOSITS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED (Continued)

Trustee-held investments consisted primarily of funds invested through a trustee in qualifying investments as specified in the applicable revenue bond resolution. The 2001 Bond Agreement requires the Hospital to maintain a Principal and Interest Fund at specified levels, which is to be used by the trustee to fund payments of principal and interest to the bondholders. Should the Hospital violate certain covenants, the Hospital may be required to deposit investments in other funds. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets.

Investment income and gains for assets whose use is limited, cash equivalents, and other investments are comprised of the following for the years ending June 30, 2004 and 2003:

	June 30,	
	2004	2003
Investment Income	$ 20,899	$ 63,755

NOTE G
CAPITAL ASSETS

Capital asset activity as of and for the years ended June 30, 2004 and 2003 is as follows:

	June 30, 2003	Additions	Transfers And Disposals	June 30, 2004
Capital Assets, Not Being Depreciated				
Land	$ 430,347	$ -	$ (43,024)	$ 387,323
Construction in Progress	-	64,600	(64,600)	-
Total Capital Assets Not Being Depreciated	430,347	64,600	(107,624)	387,323
Capital Assets, Being Depreciated:				
Buildings and Improvements	14,435,485	598,665	-	15,034,150
Equipment	10,882,799	88,342	-	10,971,141
Vehicles	114,405	-	-	114,405
Total Capital Assets Being Depreciated	25,432,689	687,007	-	26,119,696
Less Accumulated Depreciation for:				
Buildings and Improvements	8,083,546	372,566	-	8,456,112
Equipment	7,895,853	550,793	-	8,446,646
Vehicles	101,953	3,768	-	105,721
Total Accumulated Depreciation	16,081,352	927,127	-	17,008,479
Total Capital Assets, Being Depreciated, Net	9,351,337	(240,120)	-	9,111,217
Organization Capital Assets, Net	$ 9,781,684	$ (175,520)	$ (107,624)	$ 9,498,540

NOTE G
CAPITAL ASSETS (Continued)

	June 30, 2002	Additions	Transfers And Disposals	June 30, 2003
Capital Assets, Not Being Depreciated				
Land	$ 430,347	$ -	$ -	$ 430,347
Construction in Progress	2,593,427	-	(2,593,427)	-
Total Capital Assets Not Being Depreciated	3,023,774	-	(2,593,427)	430,347
Capital Assets, Being Depreciated:				
Buildings and Improvements	11,171,520	670,538	2,593,427	14,435,485
Equipment	10,454,021	428,778	-	10,882,799
Vehicles	114,405	-	-	114,405
Total Capital Assets Being Depreciated	21,739,946	1,099,316	2,593,427	25,432,689
Less Accumulated Depreciation for:				
Buildings and Improvements	7,707,915	375,631	-	8,083,546
Equipment	7,363,078	532,775	-	7,895,853
Vehicles	96,836	5,117	-	101,953
Total Accumulated Depreciation	15,167,829	913,523	-	16,081,352
Total Capital Assets, Being Depreciated, Net	6,572,117	2,779,220	-	9,351,337
Organization Capital Assets, Net	$ 9,595,891	$ 185,793	$ -	$ 9,781,684

Depreciation and amortization expense for the years ended June 30, 2004 and 2003 totaled $927,127 and $913,523, respectively.

Plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method.

Maintenance, repairs and minor replacements and improvements are expensed as incurred. Major replacements and improvements are capitalized at cost.

NOTE H

DEBT

The following table summarizes the Hospital's outstanding debt:

	June 30, 2003	Borrowings	Reductions and Payments	June 30, 2004	Due Within One Year
Hospital Revenue Bonds, Series 2001	$ 3,355,000	$ -	$ (105,000)	$ 3,250,000	$ 115,000
Certificate of Indebtedness, Revenue Anticipation Note	200,000	-	(200,000)	-	-
Estimated Retroactive Adjustments	300,000	-	(300,000)	-	-
Equipment Note Payable	138,402	-	(136,400)	2,002	2,002
	$ 3,993,402	$ -	$ (741,400)	$ 3,252,002	$ 117,002

	June 30, 2002	Borrowings	Reductions and Payments	June 30, 2003	Due Within One Year
Hospital Revenue Bonds, Series 2001	$ 3,455,000	$ -	$ (100,000)	$ 3,355,000	$ 105,000
Certificate of Indebtedness, Revenue Anticipation Note	-	200,000	-	200,000	200,000
Estimated Retroactive Adjustments	-	300,000	-	300,000	-
Equipment Note Payable	327,236	-	(188,834)	138,402	138,402
	$ 3,782,236	$ 500,000	$ (288,834)	$ 3,993,402	$ 443,402

On April 1, 2001, bonds totaling $3,550,000 were issued by the Hospital. Proceeds from the sale of these bonds are restricted to acquiring and constructing additions and improvements to Hospital facilities, including the emergency room, equipment and furnishings. The bonds mature serially in the years 2003 to 2021. Interest is payable on March 1 and September 1 of each year. The average interest rate is 4.74%. The bonds and interest will be paid by an annual Ad Valorem tax levied on property owners.

For the years ended June 30, 2004 and 2003, interest cost on the 2001 bond capitalized into Construction in Progress totaled $-0- and, $151,153, respectively. Capitalized interest earned for the years ended June 30, 2004 and 2003, totaled $-0- and $6,840, for a net capitalized interest cost of $-0- and $144,313, respectively.

During the year ended June 30, 1999, the Hospital borrowed funds for the acquisition of medical equipment. The loan originated in the amount of $825,963, and is repayable in 60 monthly installments totaling $15,254 per month, including interest at 5.36%. The loan was secured by equipment that was purchased with the loan proceeds. During the year ended June 30, 2004, this loan was paid in full.

During the year ended June 30, 2003, the Hospital adopted a resolution issuing $200,000 of Certificates of Indebtedness, Series 2003, payable from the pledge of revenues for the purpose of paying current expenses of the Hospital for the calendar year 2003. The certificates matured in March 2004, and bore interest at a rate of 6%.

NOTE H
DEBT (Continued)

The scheduled maturities of the long-term debt are as follows:

Year Ended June 30,	Principal	Interest
2005	$ 115,000	$ 150,983
2006	120,000	147,245
2007	125,000	143,045
2008	135,000	138,545
2009	145,000	133,550
2010 – 2014	865,000	555,640
2015 – 2019	1,165,000	326,045
2020 – 2021	580,000	45,180
Total	$ 3,250,000	$ 1,640,233

NOTE J
INCOME TAXES

The Hospital is a governmental unit, registered as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

NOTE K
COMMITMENTS

- ***Capital Leases***

  The Hospital was the lessee of various medical equipment under capital leases. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for the year ended June 30, 2003. During the year ended June 30, 2003, these lease obligations were repaid in full.

- **Operating Leases**

  The Hospital also leases medical equipment and medical office space under operating lease agreements. The total rent expense for the years ended June 30, 2004 and 2003, for equipment leased under operating leases was $349,827 and $269,286, respectively.

NOTE K
COMMITMENTS (Continued)

- **Management Services Agreement**

  The Hospital has a management services agreement with an independent contractor to manage its day-to-day business operations. The management services agreement expires December 31, 2004, and the Hospital is contractually obligated to pay $186,185 under the terms of this agreement during the calendar year then ended. The Hospital signed an extension to this agreement, which obligates the Hospital to pay a base management fee of $215,500 in each of the calendar years 2005 through 2009. The annual fee is to be paid in equal monthly installments. Either party to the agreement may terminate the agreement without cause on or after December 31, 2007, with the provision of 90 day written notice to the other party.

  The Hospital has employment contracts with multiple physicians, which expire at varying terms through 2008. These agreements generally provide for a base salary or hourly rate in return for services provided, and incentive compensation based on practice income as defined in the individual agreements. The agreements stipulate the circumstances under which termination may occur. The terms of some of the agreements, however, stipulate that in the case of termination without cause, the Hospital is obligated to provide reduced base salary payments for varying monthly periods as is defined in the agreements.

NOTE L
DEFERRED COMPENSATION PLAN AND PENSION PLAN

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

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

The Hospital funds the plan based on a percentage of eligible employees' annual salary. This percentage is determined by the Board, and is currently 3.25%. There is no prior funding required. The Hospital's contribution to the plan amounted to $209,519 for June 30, 2004 and $161,126 for June 30, 2003.

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

NOTE M

INVESTMENT IN CATH LAB

During the year ended June 30, 1999, the Hospital fulfilled its obligation in meeting its capital contribution requirement to a limited liability corporation (LLC), operating under the name of Bayou Labs of Louisiana, LLC. The members of the LLC include the Hospital, St. Anne General Hospital and Alton Ochsner Foundation. The Hospital holds a one-third interest in the LLC. During the year ended June 30, 2004, the Hospital recorded a $25,955 loss from the LLC. The investment is accounted for under the equity method. The LLC is a calendar year entity, whose books and records are subject to audit. Audited financial statements that coincide with the Hospital's year-end are not available; therefore, the reported value of the Hospital's investment is based upon the December 31, 2003 audit.

Condensed financial information of Bayou Labs of Louisiana, LLC. as of and for the years ended December 31, 2003 and 2002 is as follows:

Statements of Net Assets

	December 31,	
	2003	2002
Assets	$ 785,030	$ 1,416,092
Liabilities	$ 48,476	$ 1,675
Net Assets	736,554	1,414,417
Liabilities and Net Assets	$ 785,030	$ 1,416,092

Statements of Operations

	December 31,	
	2003	2002
Revenues	$ 185,071	$ 190,434
Expenses	271,590	302,900
Operating Loss	(86,519)	(112,466)
Interest Income	8,656	13,978
Change in Net Assets	$ (77,863)	$ (98,488)

Additionally, the LLC distributed paid distributions of $600,000 during the calendar year ended December 31, 2003 of which, the Hospital was the recipient of $200,000. The distributions received were treated as a return of invested capital in the Hospital's financial statements.

NOTE N

CONTINGENCIES AND RISK MANAGEMENT

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

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

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

Professional Liability

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

Workmen's Compensation

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

NOTE N

CONTINGENCIES AND RISK MANAGEMENT (Continued)

Self-Insurance for Health Insurance

During the fiscal year ended June 30, 2004, the Hospital elected to self-insure employee and eligible dependent health claims. The self-insured claims are processed through a plan administrator. The Hospital's self insured plan has stop-loss insurance coverage for claims in excess of $35,000 per individual per plan year and $35,000 in the aggregate for claims in excess of the individual stop-loss. Prior to the current fiscal year, the Hospital maintained commercial insurance coverage for health claims. The following is a summary of estimated claims liability for the year ended June 30, 2004. The Hospital has recorded a current liability for open claims and claims incurred but not reported.

Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Current Year Claim Payments	Balance at Fiscal Year End
$ -	$ 409,666	$ 332,666	$ 77,000

Laws and Regulations

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

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report
on Supplementary Information

Our report on our audits of the basic financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL** for the years ended June 30, 2004 and 2003, appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information that follows on pages 24-39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

December 1, 2004

110 Veterans Memorial Boulevard, Suite 200, Metairie, LA 70005-4958 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 202, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
WWW.LAPORTE.COM

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

	For The Years Ended June 30, 2004	2003
PATIENT SERVICE REVENUES		
Laboratory	$ 6,881,610	$ 7,416,535
Clinics	4,419,172	3,697,040
Cat Scan	3,590,980	3,170,335
Behavioral Medicine Unit	2,706,975	2,894,625
Pharmacy	2,566,986	2,452,913
Dialysis	2,568,758	2,396,097
Radiology	2,066,491	1,968,248
Emergency Room Professional Fees	1,993,555	1,834,809
Emergency Room	2,328,533	1,786,474
Cardiopulmonary	2,469,874	1,626,046
Medical Surgery	1,538,400	1,606,330
MRI	1,352,660	1,349,448
Pharmacy IV	895,548	839,977
Operating Room Supply	698,051	780,958
Operating Room	760,147	751,142
Anesthesia	591,170	670,907
Ultrasound	668,726	648,634
Cardiology	760,472	586,355
Home Health	588,664	571,892
EKG	610,818	510,253
Nuclear Medicine	241,042	424,071
Intensive Care	604,500	400,544
Podiatry Clinic	395,345	265,985
Out Patient Rehab	258,120	233,075
Central Supply	167,722	225,018
Emergency Room Supply	234,431	195,833
Home Health Physical Therapy	112,918	128,780
Anesthesia Supply	129,227	87,184
Blood Bank	115,695	75,281
Recovery Room	71,230	56,102
Mammography	60,975	54,492
Observation Room	36,546	39,124
Physical Therapy	51,734	38,906

See independent auditor's report on supplementary information.

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

	For The Years Ended June 30, 2004	2003
LOSMC - Golden Meadow	32,100	25,000
EEG	28,545	21,938
Home Health Central Supply	46,821	19,901
Home Health Occupational Therapy	22,568	18,848
Home Health Speech Therapy	6,324	5,828
Radiology Special Procedures	-	360
Speech Therapy	-	234
Totals	42,673,433	39,875,522
Less: Contractual Adjustments	19,860,814	19,125,946
Less: Provision for Bad Debts	2,881,650	2,114,556
Less: Board Approved Charity Expense	683,727	160,201
Net Patient Service Revenue	$ 19,247,242	$ 18,474,819

See independent auditor's report on supplementary information.

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

	For The Years Ended June 30, 2004	2003
OTHER OPERATING REVENUE		
Disproportionate Share Revenue	$ 1,512,616	$ 954,840
Shared Urology Income	156,291	-
Heart Scans	137,261	45,732
Rebate Income	87,867	28,288
Rental Income - Clinics	67,100	103,067
Employee Meals	39,116	47,313
Medical Records Revenue	21,116	16,722
Sale of Property	15,645	6,208
Clinic Room Charge	13,579	14,280
Miscellaneous	15,967	34,544
Physician Risk Reduction	7,591	9,064
Guests Meals	5,435	5,521
Prescription Assistance Program	1,698	2,033
LHA - HRSA Allocation	1,935	-
Employee Physicals	210	2,380
Equity in Net (Loss) of Cath Lab	(25,955)	(32,829)
Total Other Operating Revenue	$ 2,057,472	$ 1,237,163

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES - IN TOTAL BY DEPARTMENT

	For The Years Ended June 30, 2004	2003
ACUTE AND ANCILLARY SERVICES		
Laboratory	$ 1,119,933	$ 1,168,762
Medical/Surgical	989,914	981,585
Emergency Room - Professional	954,294	956,233
Renal Dialysis	902,750	804,748
Operating Room	764,372	898,932
Emergency Room	732,536	758,105
Radiology	709,068	718,869
ICU	481,892	473,314
Cardiopulmonary	480,293	474,709
Pharmacy	453,377	549,196
Anesthesia	424,692	375,283
Cardiology	279,981	213,815
MRI	237,461	250,600
CT Scans	152,689	87,091
Ultrasound	117,757	98,789
Nuclear Medicine	99,448	74,342
Outpatient Rehab	81,882	77,413
Blood Bank	71,523	70,471
Learning Center	52,465	-
Central Supply	39,325	60,487
EKG	27,989	26,585
Speech Therapy	20,378	11,735
Mammography	12,890	9,585
Flex Pool - Emergency Room	8,710	45,970
EEG	4,027	4,268
Pharmacy IV	2,381	3,119
Physical Therapy	1	180
Total Acute and Ancillary Services	9,222,028	9,194,186
PSYCHIATRIC		
Behavioral Medicine Unit	1,459,106	1,404,471
Psych Therapy	120,000	120,000
Total Psychiatric	1,579,106	1,524,471

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES - IN TOTAL BY DEPARTMENT

	For The Years Ended June 30, 2004	2003
CLINICS		
LOSMC - Larose Clinic	769,197	779,800
LOSMC - Cut Off Clinic	753,358	661,811
Lady of the Sea Medical Clinic	479,449	505,847
Dr. Benson	448,951	-
Dr. Jackson	353,732	-
Dr. Troy Hutchinson	273,968	281,834
LOSMC - Galliano	208,139	162,543
Dr. Duet	186,830	163,650
Dr. Lengel	176,333	121,653
Dr. Gisclair	175,593	140,639
LOSMC - Podiatry Clinic	155,480	135,702
Medical Clinic	102,321	130,300
LOSMC - Pitre	92,061	-
Dr. Rhoda Smith	88,021	494,144
South Lafourche Surgical Associates	57,604	144,394
Golden Meadow - PA	47,065	-
Dr. R. Risener	34,561	160,338
Dr. Carson	33,791	-
LOSMC - Vega	23,476	-
Med Express Clinic	14,468	18,445
LOSSC - T/S	7,832	-
Total Care Clinic	7,177	48,898
Total Clinic	4,489,407	3,949,998
HOME HEALTH		
Home Health	349,318	324,030
Home Health Nursing Services	79,459	78,299
Home Health Physicial Therapy	62,665	68,900
Home Health Occupational Therapy	9,100	7,300
Home Health Speech Therapy	3,000	2,350
Total Home Health	503,542	480,879

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF OPERATING EXPENSES - IN TOTAL BY DEPARTMENT

	For The Years Ended June 30, 2004	2003
GENERAL SERVICES		
Maintenance	766,955	716,814
Dietary	314,647	347,521
Medical Records	292,781	228,918
Housekeeping	202,090	236,057
Utilization Review	121,023	179,177
Purchasing	100,204	89,712
Laundry	80,192	70,535
Education - Infection Control	78,364	118,411
Hospital Safety	14,127	16,323
Medical Staff	10,082	14,207
Social Service	1,800	1,884
Employee RX	1,154	-
Volunteers	(40)	309
Total General Services	1,983,379	2,019,868
FISCAL SERVICES		
Business Office	333,551	338,739
General Accounting	189,349	185,973
Data Processing	154,282	164,675
Collections	68,934	61,260
Insurance Processing	63,223	61,472
Total Fiscal Services	809,339	812,119
ADMINISTRATIVE SERVICES		
Other	899,521	857,175
Administration	1,049,286	981,628
Nursing Administration	337,155	309,798
Public Relations	138,909	160,673
Human Resource and Risk Management	106,689	73,738
Security	90,058	90,556
Patient Relations	47,298	43,787
Quality Management	40,723	33,994
Total Administrative Services	2,709,639	2,551,349
Total Operating Expenses - In Total by Department	$21,296,440	$20,532,870

See independent auditor's report on supplementary information.

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

Department	For The Years Ended June 30, 2004	2003
Medical/Surgical	$ 612,784	$ 665,965
Radiology	449,687	413,262
Laboratory	419,370	425,875
Emergency Room	358,163	432,239
Dr. Benson	313,981	-
Operating Room	307,149	319,934
Renal Dialysis	284,556	230,111
Nursing Administration	282,698	263,778
Cardiopulmonary	276,750	275,289
Home Health	262,450	247,814
Dr. Troy Hutchinson	250,650	258,833
Lady of the Sea Medical Clinic	245,644	185,769
Business Office	232,061	240,487
Dr. Jackson	225,969	-
LOSMC - Larose Clinic	218,822	175,764
LOSMC - Cut Off Clinic	200,919	112,170
Pharmacy	195,567	180,388
Medical Records	177,267	145,929
Maintenance	170,680	187,752
Dr. D. Duet	169,107	143,504
Dr. J. Gisclair	150,318	120,346
Dietary	137,582	159,858
Housekeeping	127,021	153,962
Dr. G. Lengel	118,039	64,445
Anesthesia	115,212	194,596
Utilization Review	96,381	136,887
Administration	94,745	93,369
Dr. Rhoda Smith	91,234	469,805
General Accounting	89,230	79,825
Purchasing	74,179	63,459
Cardiology	69,481	60,331

See independent auditor's report on supplementary information.

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

Department	For The Years Ended June 30, 2004	2003
Medical Clinic	68,960	95,206
Education - Infection Control	65,334	91,435
LOSMC - Pitre	62,628	-
LOSMC - Galliano	61,867	22,835
Collections	61,060	53,385
Human Resource and Risk Management	53,313	46,944
Home Health Nursing Services	49,055	50,374
Insurance Processing	43,982	40,701
Learning Center	42,142	-
Patient Relations	39,404	35,895
LOSMC - Podiatry Clinic	36,992	13,675
Golden Meadow - PA	35,509	-
Laundry	32,825	35,321
Dr. R. Risener	27,498	136,680
ICU	24,870	9,321
Data Processing	24,391	24,633
LOSMC - Vega	20,676	-
Dr. Carson	19,073	-
Public Relations	8,750	-
Flex Pool - Emergency Room	7,238	41,815
Ultrasound	6,837	9,142
South Lafourche Surgical Associates	2,066	54,463
Central Supply	316	12,391
Total Care Clinic	-	14,732
Total Salaries by Department	$ 7,612,482	$ 7,290,694

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF EMPLOYEE BENEFITS BY DEPARTMENT

Department	For The Years Ended June 30, 2004	For The Years Ended June 30, 2003
Medical/Surgical	$ 148,368	$ 124,215
Other	103,833	125,173
Radiology	85,895	69,173
Medical Records	77,159	37,977
Emergency Room	66,646	71,489
Business Office	59,344	58,521
Administration	53,971	18,640
Operating Room	52,339	65,784
Dr. Benson	51,510	-
Nursing Administration	49,819	41,992
Laboratory	48,634	60,136
Cardiopulmonary	42,224	52,089
Renal Dialysis	40,577	47,199
Dr. Jackson	40,291	-
Maintenance	38,769	46,462
Pharmacy	37,646	33,886
Lady of the Sea Medical Clinic	37,271	26,290
LOSMC - Larose Clinic	34,897	30,820
LOSMC - Cut Off Clinic	31,636	25,392
Home Health Nursing Services	30,404	27,925
General Accounting	27,739	19,155
Housekeeping	27,155	27,907
Dr. J. Gisclair	25,002	18,225
Dietary	24,758	38,690
Dr. Troy Hutchinson	23,318	23,001
Home Health	18,070	16,265
Dr. D. Duet	17,561	17,247
Utilization Review	15,836	30,033
Med Express Clinic	14,468	18,393
Purchasing	12,665	17,537
Cardiology	9,896	13,777

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF EMPLOYEE BENEFITS BY DEPARTMENT

Department	For The Years Ended June 30, 2004	2003
Dr. Carson	9,858	-
Laundry	9,324	11,275
Human Resource and Risk Management	8,836	15,362
Learning Center	8,226	-
Collections	7,777	7,339
Insurance Processing	7,102	11,123
LOSMC - Pitre	7,072	-
Golden Meadow - PA	5,997	-
Data Processing	5,505	7,161
Dr. R. Risener	5,380	20,993
LOSMC - Galliano	4,773	3,724
LOSMC - Podiatry Clinic	4,206	934
Patient Relations	3,915	4,392
Education - Infection Control	3,198	9,163
Flex Pool - Emergency Room	1,447	3,813
ICU	994	2,828
LOSMC - Vega	961	-
Anesthesia	735	14,219
Public Relations	258	-
Total Care Clinic	-	(3,529)
Central Supply	(1)	7,169
South Lafourche Surgical Associates	(602)	6,180
Dr. Rhoda Smith	(3,213)	24,339
Dr. G. Lengel	(6,739)	15,885
Total Employee Benefits by Department	$ 1,432,710	$ 1,365,763

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF PURCHASED SERVICES BY DEPARTMENT

Department	For The Years Ended June 30, 2004	2003
Behavioral Medicine Unit	$ 1,417,962	$ 1,365,309
Emergency Room - Professional	954,294	956,233
Administration	530,151	433,953
ICU	414,387	422,008
LOSMC - Larose Clinic	368,822	479,147
LOSMC - Cut Off Clinic	357,253	436,309
Anesthesia	235,247	98,096
Laboratory	234,049	230,570
Operating Room	181,948	220,769
Cardiology	150,000	103,362
Psych Therapy	120,000	120,000
Data Processing	97,910	94,500
Medical/Surgical	95,904	49,037
Cardiopulmonary	91,051	77,510
Security	90,058	90,556
Emergency Room	89,786	49,875
General Accounting	67,136	81,678
Home Health Physical Therapy	62,665	68,900
Lady of the Sea Medical Clinic	62,043	197,837
Radiology	55,172	117,104
Ultrasound	41,550	28,200
Renal Dialysis	38,744	28,489
EKG	27,989	26,585
Maintenance	20,451	32,787
Speech Therapy	20,378	11,735
Public Relations	12,350	40,800
Insurance Processing	12,135	9,610
Home Health	11,278	11,331
Home Health Occupational Therapy	9,100	7,300
Hospital Safety	7,721	5,644
Total Care Clinic	5,964	22,691

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF PURCHASED SERVICES BY DEPARTMENT

	For The Years Ended June 30,	
Department	2004	2003
Utilization Review	3,600	3,600
Home Health Speech Therapy	3,000	2,350
South Lafourche Surgical Associates	1,962	3,023
CAT Scan	1,200	1,600
Education - Infection Control	474	235
Medical Records	1	6,127
Nuclear Medicine	-	2,416
Medical Clinic	(192)	2,883
Total Purchased Services by Department	$ 5,893,543	$ 5,940,159

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF SUPPLIES AND OTHER EXPENSES BY DEPARTMENT

	For The Years Ended June 30,	
Department	2004	2003
Other	$ 795,688	$ 732,002
Renal Dialysis	538,873	498,949
Maintenance	537,055	449,813
Laboratory	417,880	452,181
Administration	370,419	435,666
MRI	237,461	250,600
Operating Room	222,936	292,445
Pharmacy	220,164	334,922
Emergency Room	217,941	204,502
LOSMC - Cut Off Clinic	163,550	87,940
Dietary	152,307	148,973
CT Scans	151,489	85,491
LOSMC - Larose Clinic	146,656	94,069
LOSMC - Galliano	141,499	135,984
Lady of the Sea Medical Clinic	134,491	95,951
Medical/Surgical	132,858	142,368
Radiology	118,314	119,330
Public Relations	117,551	119,873
LOSMC - Podiatry Clinic	114,282	121,093
Nuclear Medicine	99,448	71,926
Dr. Jackson	87,472	-
Dr. Benson	83,460	-
Out Patient Rehab	81,882	77,413
Anesthesia	73,498	68,372
Blood Bank	71,523	70,471
Cardiopulmonary	70,268	69,821
Ultrasound	69,370	61,447
Dr. G. Lengel	65,033	41,323
Home Health	57,520	48,620
South Lafourche Surgical Associates	54,178	80,728
Cardiology	50,604	36,345
Housekeeping	47,914	54,188
Human Resource and Risk Management	44,540	11,432
Business Office	42,146	39,731
ICU	41,641	39,157

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
SCHEDULE OF SUPPLIES AND OTHER EXPENSES BY DEPARTMENT

Department	For The Years Ended June 30, 2004	2003
Behavioral Medicine Unit	41,144	39,162
Quality Management	40,723	33,994
Central Supply	39,010	40,927
Medical Records	38,354	38,885
Laundry	38,043	23,939
Medical Clinic	33,553	32,211
Data Processing	26,476	38,381
LOSMC - Pitre	22,361	-
Purchasing	13,360	8,716
Mammography	12,890	9,585
Medical Staff	10,082	14,207
Education - Infection Control	9,358	17,578
LOSSC - T/S	7,832	-
Hospital Safety	6,406	10,679
Golden Meadow - PA	5,559	-
General Accounting	5,244	5,315
Utilization Review	5,206	8,657
Dr. Carson	4,860	-
Nursing Administration	4,638	4,028
EEG	4,027	4,268
Patient Relations	3,979	3,500
Pharmacy IV	2,381	3,119
Learning Center	2,097	-
Social Service	1,800	1,884
LOSMC - Vega	1,839	-
Dr. R. Risener	1,683	2,665
Total Care Clinic	1,213	15,004
Employee RX	1,154	-
Dr. J. Gisclair	273	2,068
Dr. D. Duet	162	2,899
Collections	97	536
Flex Pool - Emergency Room	25	342
Insurance Processing	4	38
Physical Therapy	1	180
Med Express Clinic	-	52
Volunteers	(40)	309
Total Supplies and Other Expenses by Department	$ 6,357,705	$ 5,936,254

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
UNAUDITED CONDENSED SCHEDULE OF INSURANCE
For The Year Ended June 30, 2004

COVERAGE		
PROPERTY, BOILER AND MACHINERY		
All Buildings, Personal Property, Boiler and Machinery and Business Income		
All Buildings (90% Coinsurance) and Contents, Equipment, Etc.		
Blanket Coverage Ranges		
Low	$ 4,063,200	11/1/2004
High	9,587,000	
Non-Blanket Coverage Ranges		
Low	10,000	11/1/2004
High	8,000,000	
Autos - Vehicles - Plus Collision	1,000,000	11/1/2004
DIRECTORS' AND OFFICERS' LIABILITY	1,000,000	9/8/2004
COMMERCIAL CRIME		
Employee Dishonesty	100,000	11/1/2004
Forgery and Alteration	10,000	11/1/2004
Theft, Disappearance and Destruction	10,000	11/1/2004
Robbery and Safe Burglary	10,000	11/1/2004
FLOOD		
Building	560,000	11/6/2004
Contents	286,500	11/6/2004
WORKMEN'S COMPENSATION	1,000,000	1/1/2005
BOARD ACCIDENT		
Accidental Death	10,000	6/13/2005
Medical Expense	10,000	6/13/2005

See independent auditor's report on supplementary information.

LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
LADY OF THE SEA GENERAL HOSPITAL
UNAUDITED CONDENSED SCHEDULE OF INSURANCE (Continued)
For The Year Ended June 30, 2004

COVERAGE		
PROFESSIONAL LIABILITY		
Coverage per Claim	100,000	11/1/2004
Primary Excess	400,000	11/1/2004
GENERAL LIABILITY		
Coverage per Occurence	5,000,000	11/1/2004
PATIENT COMPENSATION		
Coverage per Claim	100,000	11/1/2004
BUSINESS TRAVEL		
Accidental Death	225,000	6/12/2005
Aggregate	675,000	6/12/2005

See independent auditor's report on supplementary information.

LaPorte Sehrt Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 1, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 04-01 and 04-02.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-01 and 04-02 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL HOSPITAL,** in a separate letter dated December 1, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a LADY OF THE SEA GENERAL 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 an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 04-03.

This report is intended solely for the information and use of the Board of Commissioners, Management, 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, Louisiana
December 1, 2004

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

SCHEDULE OF AUDIT FINDINGS

A. FINDINGS – FINANCIAL STATEMENT AUDIT

04-01 Cash Accounts Not Reconciled Timely

Condition: It was noted during the audit, that as in the previous fiscal year, the Hospital's bank statements were allowed to accumulate on a monthly basis without reconcilement to the general ledger. Several of the reconciliations that have since been prepared have unresolved differences between the general ledger accounts and the reconciliation.

Cause: As noted in the prior year audit, the former chief financial officer of the Hospital resigned. The resulting increase in workload on the accounting manager did not allow time for reconciliations to be completed on a timely basis. During the current fiscal year, the Hospital hired a new chief financial officer who was afflicted with an illness that resulted in his leave of absence from the Hospital and prevented any improvement in this area from the prior year.

Effect: Assurance was not provided on a timely basis that all transactions had been entered and recorded properly.

Recommendation: The lack of monthly reconcilement of cash accounts is a serious internal control condition that can result in misstated financial statements, as well as an increased risk that errors or irregularities involving cash receipts and disbursements may be undetected. All bank accounts should be reconciled no later than the 10th working day of the following month or within a week of receipt of the bank statements. Upon completion, reconciliations should be reviewed by a member of management other than the preparer of the reconciliation. All clearing account balances, such as deposits or remittances that can not be immediately matched with specific patient accounts, should be fully detailed each month as to the origin of the balance.

Response and Corrective Action Plan: Management of the Hospital, including the current administrator and the interim chief financial officer are again actively involved in a search for a new *CFO for the hospital. Additionally, the Hospital has supplemented the financial staff and will review* current staffing assignments to balance workloads as well as optimize the segregation of duties.

04-02 Significant Asset and Liability Accounts Not Reconciled to Subsidiary Ledgers or Supporting Schedules

Condition: The Hospital does not have controls in place to ensure that all significant asset and liability accounts on the general ledger are supported by, or reconciled to the underlying subsidiary journals, or schedules that detail the account balance. Particularly notable in this area are physician clinic accounts receivable and related allowance accounts, as well as property plant and equipment related accounts.

Cause: Turnover at the Chief Financial Officer position has increased the workloads of the existing finance staff. Staff time is devoted to transaction processing and posting with little time available each month for reconciliations and investigation of differences. Additionally, during the current fiscal year the Hospital had to transition the formerly out sourced physician clinic billing function to the Hospital's staff.

Effect: Potential misstatements of the Hospital's net assets, results of operations, and change in net assets. Increased risk of undetected errors or irregularities occurring and not detected. Management decisions may be based on unreliable data.

Recommendation:
1. The Hospital's management should continue to aggressively search for a permanent controller or chief financial officer with experience in a healthcare environment.
2. The Hospital's management should develop a month-end closing checklist that includes the monthly review of asset and liability account reconciliations by a scheduled due date prior to the ultimate preparation of the Hospital's financial statements.
3. If a new CFO or controller is hired, existing accounting and recordkeeping processes in all areas of the Hospital and particularly satellite clinics should be reviewed in detail for potential deficiencies and opportunities to increase operating efficiencies and control over assets.
4. The Hospital's Board should work with management to develop a contingency\business continuity plan to prevent a recurrence of this condition in the event that unforeseen illnesses or other unexpected events results in staffing shortages such as those that occurred in the past fiscal year.

Response and Corrective Action Plan: Management concurs with the finding and recommendations detailed above and has begun formulating plans to implement corrective actions to prevent recurrence.

B. COMPLIANCE WITH STATE LAWS AND REGULATIONS

04-03 Audited Financial Statements Not Submitted by State of Louisiana Reporting Deadline

Condition: The Hospital's financial audit was not submitted by the State of Louisiana mandated six month submission deadline to the Legislative Auditor's office.

Cause: Due largely to circumstances detailed in conditions 04-01 and 04-02 above, the audit process was delayed while reconciliations were prepared and adjusting entries were prepared and posted. Upon completion of fieldwork, time did not permit the preparation of the required management discussion and analysis section, nor management or board approval of the reporting package to facilitate delivery by the December 31, 2004, deadline. State of Louisiana law does not permit extensions of time for filing.

Effect: The effect of the condition is noncompliance with state laws and regulations involving political subdivisions in Louisiana.

Recommendation: The Hospital should strive to implement the recommendations in findings 04-01 and 04-02 above in a manner that would facilitate the completion of audit procedures in a timely manner. Management should arrange a pre-audit meeting with its external auditors prior to the close of its June 30, 2005 fiscal year to discuss the status of reconciliations, fieldwork timing expectations as well as any new developments or conditions that have arisen during the year.

Response and Corrective Action Plan: Management concurs with the finding and recommendation above and, asserts that much of the difficulty that occurred this year was directly related to illnesses or medical conditions affecting multiple members of the financial accounting staff. Further, management indicates that the Hospital has a long record of meeting the required submission deadlines and anticipates the resumption of timely filings beginning with the June 30, 2005, year end audit.

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

STATUS OF PRIOR AUDIT FINDINGS

A. FINDINGS – FINANCIAL STATEMENT AUDIT

03-01 Cash Accounts Not Reconciled Timely

Condition: During the fiscal year ended June 30, 2003, the former Chief Financial Officer of the Hospital resigned. The resulting increase in workload on the remaining financial staff did not allow time for reconciliations to be completed on a timely basis.

Effect: Bank statements for multiple months on two accounts were accumulated without reconcilement to the general ledger controls. Accordingly, assurance was not provided on a timely basis that all transactions had been entered by the bank and recorded in the books properly.

Recommendation: All bank accounts should be reconciled no later than the 10th working day of the following month or within a week of receipt of the bank statements. If bank reconciliation's are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and disposed of properly.

Current Status: *Resolution is still pending. Refer to current year finding 04-01 in the attached* Schedule of Findings.

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

AUDIT OBSERVATIONS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

LaPorte Sehrt Romig Hand

Certified Public Accountants

December 1, 2004

Board of Directors
Lafourche Parish Hospital Service District No. 1
d/b/a Lady of the Sea General Hospital

In connection with planning and performing our audit of the financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL** for the year ended June 30, 2004, we considered its internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The paragraphs that follow summarize our comments and suggestions. We previously reported on the Hospital's internal control in our report dated December 1, 2004. This letter does not affect our report dated December 1, 2004, on the financial statements of **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL.**

CURRENT YEAR RECOMMENDATIONS:

General Ledger Chart Of Accounts

We've noted that the Hospital's trial balance continues to grow each year, with additional accounts added as new departments or cost centers are identified. While this is not inherently a problem, it's clear that in some areas that the proliferation of similar or redundant accounts have begun to make it difficult to relate certain asset and liability accounts to their originally intended purpose.

An example of a specific area where the Hospital could benefit from a reduction or consolidation of general ledger accounts is patient accounts receivable and related allowances. Currently, the Hospital staff prepares an analysis schedule of estimated contractual allowances by payor. This schedule has proven to be an effective method of calculating the estimated allowance on outstanding accounts receivable by each major payor. Upon completion of the schedule, a lengthy adjusting entry is currently posted to the numerous general ledger accounts that exist for each payor.

We recommend that management consider reducing the contractual allowance accounts that appear on the general ledger and require adjustment each month. While professional judgment will dictate the ultimate number of allowance accounts, and corresponding contra revenue accounts, actually reported on the general ledger, we believe that these could be reduced to reflect only the major types of payors, while the aforementioned schedule is maintained to track each individual payor. Suggested consolidated general ledger account titles would be similar to the following:

- Contractual Allowance - Medicaid
- Contractual Allowance - Medicare
- Contractual Allowance - Blue Cross
- Contractual Allowance - Commercial\HMO

Another area where a similar analysis would prove beneficial is in the area of home health, physicians and outpatient clinic accounts receivable and allowances. The reassignment of many of the functions formerly performed by Practice Concepts to in house Hospital and Clinic staff necessitated the creation of new general ledger accounts to accommodate the new subsidiary ledgers. However, as time has passed management should consider the elimination of the general ledger accounts related to the "old" receivables and corresponding allowances that were previously used to account for billings by Practice Concepts. Additionally, management should review the existing chart of accounts to ensure that each clinic accounts receivable subsidiary ledger directly corresponds to a single general ledger account.

Number Of Bank Accounts

In both the current and prior year we have commented on the need to complete timely bank account reconciliations. The number of bank accounts that the hospital maintains at local financial institutions has multiplied significantly in recent years, which in turn increases that number of individual account reconciliations that must be prepared each month. The potential for misstatement related to transfers between numerous accounts is also increased. We recommend that management examine the number and type of bank accounts that are maintained. Any dormant or unused accounts should be closed and any residual balances should be transferred. Many local financial institutions (such as Hibernia) now offer commingled or "concentration" accounts that utilize a single bank account, but have the capability of generating separate cash deposit reports that are useful in posting and reconciling deposits.

Self Insured Health Claims Liability

During the past fiscal year the Hospital changed to a self-funded employee health plan, under which the Hospital is responsible for paying claims up to certain established limits. As of June 30, 2004 the Hospital had established a corresponding liability to account for its liability for unpaid claims under the Plan as of that date. Generally Accepted Accounting Principles (GAAP) require that this liability encompass both claims currently payable, i.e. claims that have been submitted to the third party processor and approved as eligible under the terms of the plan, and an estimate of incurred but not reported claims (IBNR). The liability for IBNR is intended to comprise an estimate of those incurred claims which will be eligible for payment but have not yet been submitted to the plan for processing. Under accrual basis accounting required by GAAP, an expense should be reflected as of the date the eligible claims are *incurred* rather than when reported or paid. When there is a significant amount of time allowable under the terms of the plan for submission of claims after the date of incidence, as is the often the case with health plans, the liability can be significant. While the best methodology for estimating an IBNR claims liability is to have periodic actuarial estimates performed, there are reports available from the third party processor that can be useful in providing the hospital with a consistent methodology for calculating its own estimate of these claims. Now that the Hospital has numerous months of claims history available under the current plan we recommend that this liability be assessed at least annually.

PRIOR YEAR RECOMMENDATIONS:

Reproduced below is a summary of our comments from the prior year management letter.

Balance Sheet Account Reconciliations

Although the Hospital's accounting records were adequate for the purpose of conducting our audit and reporting on your financial statements, we did encounter instances where some balance sheet accounts were not adequately reconciled to the related subsidiary or supporting documentation. Of principal concern in this area was clinic related accounts receivable balances. We noted that the clinic accounts receivable balances as of June 30, 2003 did not agree to the detailed subsidiary ledger balances. With the termination of services supplied by Practice Concepts and the restructuring that is taking place in the Hospital's finance department we would encourage you to have someone assigned the responsibility of reviewing the activity in such accounts and reconciling the balances monthly.

Status – Unchanged, included as a current year reportable condition.

Property, Plant & Equipment

Consistent with our observations in previous years, there exists differences between the general ledger control accounts and the fixed asset detail which lists the Hospital's owned assets and the accumulated depreciation associated with those assets. While not judged material to the financial statements, differences between this subsidiary and the general ledger hamper the Hospital's ability to demonstrate accountability for capital assets acquired. Of additional concern, is the fact that differences between the schedules and the general ledger control accounts appear to be fluctuating from year to year.

Further, many of the items on the fixed asset detail appear to be fully depreciated items that may no longer be on hand or are no longer being used. With the Hospital's completion of the renovation to its Emergency Department, the timing seems ideal to update the tagging, tracking and reconciliation of fixed assets.

Status - Unchanged

Other Recommendations

With the changes in the Hospital's management and staff during the past year, we encourage management to revisit the following comment from the prior year

The current audit environment necessitates that on each audit engagement we perform, that we assess an organization's internal controls (including but not limited to risk of fraud and misappropriation). Indeed, a cornerstone in the financial reporting process of any entity is the presence of adequate and effective and functioning internal controls. One of the most important controls is segregation of duties. In general, the basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. While this is not a problem in many large companies; small businesses, local government entities, and non- profit organizations typically find it much more challenging to provide an adequate segregation of important duties or functions because of smaller financial staffs. The increasing prevalence and efficiency of computer-based applications have allowed many organizations to further concentrate multiple tasks in the hands of fewer employees than before and have further increased general concerns over segregation of duties. With this in mind we continually encourage management to establish, monitor, and frequently revisit policies and procedures designed to compensate for many of the segregation of duties deficiencies that inevitably exist in small organizations. Below we have presented several relatively straightforward, but important, controls that we encourage the Hospital's management employ on an on-going basis:

- **Requiring Periodic Job Rotation and Mandatory Vacations** – Employers are usually happy when an employee stays in the same position for a long period and has few absences. Unfortunately, this situation can also provide opportunities for employees to design and commit fraud schemes. One way to address this fraud risk is to require key employees to rotate jobs periodically or to transfer to different job functions. Job rotation provides the company the added benefit of having workers who are cross-trained in different functions and who can cover for other employees when they are on vacation.

  It is also a prudent policy to require all employees to take an annual vacation (generally, a minimum of two weeks in length), during which others perform their job functions. This makes it more difficult for an employee who may choose to commit fraud to perpetuate the fraud scheme unnoticed.

We appreciate the confidence you have placed in us by allowing us to serve **LAFOURCHE PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A LADY OF THE SEA GENERAL HOSPITAL**. If we can assist you in any way with the above, please do not hesitate to contact us.

LaPorte, Sehrt, Romig & Hand
Metairie, LA
December 1, 2004

LADY OF THE SEA GENERAL HOSPITAL
Management Response And Corrective Action Plan
To Management Letter Comments
For The Year Ended June 30, 2004

General Ledger Chart of Accounts

Management will review the existing chart of accounts with the objective of consolidating/ eliminating accounts as necessary. A review of contractual allowance accounts has been completed and consolidation of these general ledger accounts will occur during Fiscal Year 2005.

Number of Bank Accounts

Management will review all bank accounts to determine the necessity for continued use. All unnecessary accounts will be closed.

Self Insured Health Claims Liability

Management recognizes the need to anticipate expenses associated with incurred but not reported claims. Management will review paid claims data subsequent to June 30, 2004 and information supplied by the third party administrator to develop the methodology for recognizing this liability.

Balance Sheet Reconciliations

As part of the restructuring of the finance department, responsibility for these reconciliations will be assigned to a specific individual and compliance monitored in a timely manner.

Property, Plant and Equipment

Management will implement a program to update tagging, tracking and reconciliation of fixed assets.

Other Recommendations

Management will ensure that employees take vacations and plans, within the constraints of staffing, to segregate duties to the extent possible.