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HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

JUNE 30, 2006

BATON ROUGE, LOUISIANA

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

Release Date 2-28-07

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September 28, 2006

Independent Auditor's Report

Board of Directors
Health Care Services Foundation and Subsidiary
Baton Rouge, Louisiana

We have audited the accompanying Consolidating Statement of Financial Position of Health Care Services Foundation and Subsidiary as of June 30, 2006, and the related Consolidating Statements of Activities, and Cash Flows for the year ended June 30, 2006. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Health Care Services Foundation and Subsidiary as of June 30, 2006, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Hannis T. Bourgeois, LLP

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2006

ASSETS	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Current Assets:				
Cash	$ 402,205	$ 953,236	$ -	$ 1,355,441
Lease Receivables, Net	41,275	43,310	-	84,585
Third Party Receivables	-	55,349	-	55,349
Investments	-	10,856	-	10,856
Prepaid Expenses	-	75,096	-	75,096
Total Current Assets	443,480	1,137,847	-	1,581,327
Property, Plant and Equipment, Net	3,272,704	6,363,832	-	9,636,536
Total Assets	$ 3,716,184	$ 7,501,679	$ -	$ 11,217,863
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Line of Credit	$ -	$ 1,720,278	$ -	$ 1,720,278
Accounts Payable	-	30,637	-	30,637
Estimated Third-Party Payables	-	119,012	-	119,012
Other Current Liabilities	24,876	495,766	-	520,642
Current Portion of Long-Term Debt	-	39,211	-	39,211
Current Maturities of Capital Leases	-	71,826	-	71,826
Current Portion of Bonds Payable	215,000	-	-	215,000
Total Current Liabilities	239,876	2,476,730	-	2,716,606
Long-Term Liabilities:				
Long-Term Debt, Less Current Maturities	-	2,461,423	-	2,461,423
Long-Term Capital Leases, Less Current Maturities	-	9,503	-	9,503
Long-Term Bonds Payable, Net of Unamortized Bond Cost of $53,153	2,026,847	-	-	2,026,847
Total Liabilities	2,266,723	4,947,656	-	7,214,379
Net Assets:				
Unrestricted	1,449,461	2,554,023	-	4,003,484
Total Liabilities and Net Assets	$ 3,716,184	$ 7,501,679	$ -	$ 11,217,863

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	Health Care Services Foundation - Unrestricted	Bogalusa Community Medical Center - Unrestricted	Eliminations	Consolidated Totals
Revenues from Operations:				
Management and Implementation Fees	$ 30,000	$ -	$ (30,000)	$ -
Other Revenue, Primarily Rental Income	737,388	2,132,649	-	2,870,037
	767,388	2,132,649	(30,000)	2,870,037
Operating Expenses:				
Lease Bad Debt	-	256,807	-	256,807
Bank and Bond Fees	34,336	-	-	34,336
Depreciation and Amortization	125,256	728,716	-	853,972
Equipment Rental	-	185,142	-	185,142
Insurance Expense	-	105,431	-	105,431
Interest Expense	78,782	200,680	-	279,462
Janitorial	98,100	-	-	98,100
Landscaping	4,800	-	-	4,800
Legal and Professional	69,644	346,338	(30,000)	385,982
Maintenance Contracts	19,998	-	-	19,998
Repairs and Maintenance	8,670	473,839	-	482,509
Supplies and Other	6,092	22,827	-	28,919
Utilities	113,946	-	-	113,946
	559,624	2,319,780	(30,000)	2,849,404
Change in Net Assets	207,764	(187,131)	-	20,633
Net Assets - Beginning of Year, as Restated	1,241,697	2,741,154	-	3,982,851
Net Assets - End of Year	$ 1,449,461	$ 2,554,023	$ -	$ 4,003,484

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Cash Flows From Operating Activities:				
Change in Net Assets	$ 207,764	$ (187,131)	$ -	$ 20,633
Adjustments to Reconcile Change in				
Net Cash Provided by Operating Activities:				
Depreciation and Amortization	125,256	728,716	-	853,972
Lease Bad Debt Expense (Net of Recovery)	-	225,715	-	225,715
Unrealized (Gain) Loss on Investments	-	(2,510)	-	(2,510)
Changes in Current Assets and Liabilities:				
(Increase) Decrease in Lease Receivables	(41,275)	98,741	-	57,466
(Increase) Decrease in Other Receivables	5,000	(55,349)	(5,000)	(55,349)
(Increase) Decrease in Prepaid Expense	-	22,540	-	22,540
Increase (Decrease) in Accounts Payable	(55,355)	20,198	5,000	(30,157)
Increase (Decrease) in Estimated Third Party Payables	-	(257,562)	-	(257,562)
Increase (Decrease) in Accrued Expenses	7,591	-	-	7,591
Net Cash Provided by Operating Activities	248,981	593,358	-	842,339
Cash Flows From Investing Activities:				
Purchases of Capital Assets	-	(366,029)	-	(366,029)
Proceeds from Return of Issuance Costs	4,781	-	-	4,781
(Increase) Decrease in Assets Limited as to Use	-	216,070	-	216,070
Net Cash Provided by (Used in) Investing Activities	4,781	(149,959)	-	(145,178)
Cash Flows from Financing Activities:				
Net Proceeds (Payments) from Line of Credit	-	1,720,278	-	1,720,278
Repayment of Long Term Debt	(205,000)	(791,515)	-	(996,515)
Repayment of Capital Leases	-	(545,251)	-	(545,251)
Net Cash Provided by (Used in) Financing Activities	(205,000)	383,512	-	178,512

(CONTINUED)

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Net Increase in Cash and Cash Equivalents	48,762	826,911	-	875,673
Cash and Cash Equivalents - Beginning of Year	353,443	126,325	-	479,768
Cash and Cash Equivalents - End of Year	$ 402,205	$ 953,236	$ -	$ 1,355,441
Supplemental Disclosure of Cash Flow Information:				
Cash Payments for Interest	$ 71,434	$ 200,680	$ -	$ 272,114

The accompanying notes are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies -

Organization

Health Care Services Foundation, ('the Foundation') is a nonprofit organization, incorporated in the State of Louisiana that provides support and appropriate services to the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College ('the Division') which includes purchasing, leasing, owning, operating, managing and selling property and services to maximize healthcare capabilities in Louisiana. Bogalusa Community Medical Center ('BCMC') is a nonprofit, non-stock corporation, incorporated in the State of Louisiana that previously operated a 112-bed hospital in Bogalusa, Louisiana. On April 25, 2002, the Foundation became the sole member of the BCMC. Effective June 24, 2002, the hospital's facilities were leased to the Louisiana State University Health Care Service Division.

Operations

The Organizations define operations as all program and supporting service activities undertaken to promote and support the Division and all the hospitals, health care facilities, departments, and divisions comprising it. Revenues that result from these activities, and their related expenses, are reported as operations. Gains, losses and other revenue that results from ancillary activities, such as investing liquid assets and disposing of fixed or other assets, are reported as non-operating.

Principles of Consolidation

The financial statements include the accounts of the Health Care Services Foundation and the Bogalusa Community Medical Center and have been consolidated in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations.* All significant intercompany accounts and transactions have been eliminated in these financial statements.

Basis of Accounting

The Foundation and Subsidiary prepare their financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board on its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, the Organizations are required to report information regarding their financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Cash and Cash Equivalents

The Foundation and Subsidiary consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered.

Net Assets

The Foundation and Subsidiary classifies assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions. The Foundation and Subsidiary do not have any temporarily restricted or permanently restricted net assets at June 30, 2006.

Lease Receivable

Lease receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on aging of currently outstanding amounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in revenues.

Prepaid Expenses and Deferred Charges

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

Property and Equipment

Property and equipment acquisitions are recorded at cost if purchased, or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset, and are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the financial statements. 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. The class lives of the assets are as follows:

Buildings	40 years
Equipment	5 years
Furniture and Fixtures	7 years

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets if material. Costs incurred in connection with the obtaining of financing are deferred and are amortized over the period the obligation is outstanding on the interest method. Costs and premium or discounts incurred in connection with the issuance of bonds or indentures is amortized over the life of the obligation on the straight line method, and the unamortized amount is included in the balance of the outstanding debt.

Contributions

Unconditional promises to give cash or other assets to the Foundation and Subsidiary are recorded at fair value on the date the promise is received. Conditional promises to give are recorded at fair value at the date the promise becomes unconditional. Gifts of cash and other assets are presented as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party arrangements and the allowance for uncollectible accounts.

Federal Income Taxes

Health Care Services Foundation and Subsidiary are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). There were no unrelated business activities for the year ended June 30, 2006. Accordingly, no tax expense was incurred during the year ended June 30, 2006.

Note 2 - Related Parties -

Health Care Services Foundation is affiliated with the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College which includes the building property and general liability insurance of HCSF with their office of Risk Management policy for the land, building and equipment rented to Health Care Services Division of the Louisiana State University Agricultural and Mechanical College.

Health Care Services Foundation is the sole member of Bogalusa Community Medical Center. The Foundation provides management and administrative services to the BCMC. Administrative fees received for the fiscal year ended June 30, 2006 totaled $30,000.

In addition, the BCMC is affiliated with the Health Care Services Division of the Louisiana State University Health Sciences Center through a recapitalization agreement. The Division leases from BCMC all net rentable space in its hospital.

Note 3 - Concentration of Credit Risk -

The Foundation and Subsidiary maintain cash accounts with commercial banks which are insured by the Federal Deposit Insurance Corporation up to $100,000. Periodically, cash may exceed the federally insured amount.

Note 4 - Investments -

Investments of the subsidiary consist of the following at June 30, 2006:

	Fair Value
Common Stock	$ 10,856

The unrealized gain on investments for the fiscal year ended June 30, 2006 amounted to $2,510.

Note 5 - Property, Plant and Equipment -

A summary of property, plant and equipment for Health Care Services Foundation at June 30, 2006 is set forth below:

Land	$ 370,000
Building and Improvements	2,890,368
Furniture	100,950
Equipment	182,512
	3,543,830
Less Accumulated Depreciation and Amortization	(271,126)
	$ 3,272,704

Depreciation expense for the year ended June 30, 2006 amounted to $123,183.

A summary of property, plant and equipment for the Subsidiary at June 30, 2006 is set forth below:

Land	$ 18,585
Buildings and Improvements	12,655,198
Equipment	9,936,719
	22,610,502
Less: Accumulated Depreciation and Amortization	(16,375,504)
Construction in Progress	128,834
	$ 6,363,832

Depreciation and amortization expense for the year ended June 30, 2006, amounted to $728,716. Accumulated amortization for equipment under capital lease obligations at June 30, 2006, is $548,433.

Note 6 - Leases -

The Foundation entered into an agreement to lease space, land and equipment to Louisiana State University Health Care Sciences Division (LSUHCSD) to be used as a medical office and clinic facility. The rent commencement date was June 1, 2004 and will continue until May 31, 2014. Base rent is $53,323 per month, based on monthly estimated operating costs plus estimated debt service. The operating costs component of base rent shall be reconciled annually and the debt service component of base rent shall be reconciled quarterly.

The BCMC has entered into multiple non-cancelable leases with third parties for the lease of various property and equipment. These leases are as follows:

Lease agreement to lease space, land, and equipment to Louisiana State University Health Care Sciences Division ("LSUHCSD") to be used as a hospital, effective June 24, 2002, and extending until June 24, 2007 with options to extend at a monthly rental of $136,437.

Lease agreement to lease certain property and equipment to a third party to be used as a clinic effective January 1, 2005, and extending until December 31, 2007, at a monthly rental of $15,258 per month.

Lease agreement to lease space to a third party to be used as a 14-bed rehabilitation hospital at a monthly rental of $10,956 on a month-to-month basis.

Lease agreements with various third parties to lease space, property, and equipment. The monthly rental of these various leases totaled $10,264.

The carrying values of the property and equipment leased by the BCMC are as follows:

Buildings and Improvements	$ 12,655,198
Equipment	9,936,719
Total Leased Property	22,591,917
Less: Accumulated Depreciation	16,375,504
Net Leased Property	$ 6,216,413

The following is a schedule by years of future minimum rental payments receivable on noncancelable long-term leases as of June 30:

Year Ended June 30,	Future Rental Revenues
2007	$ 1,845,687
2008	49,541
2009	43,326
2010	20,068
Total Minimum Future Rentals	$ 1,958,622

For the purpose of these statements, the lease amount as set forth in the original lease agreement was used in the determination of the minimum future rentals and thus is subject to change.

Note 7 - Line of Credit Agreement -

During the year ended June 30, 2006, BCMC entered into an agreement with a bank for a $2,000,000 line of credit, secured by a mortgage and security interest in all of the presently owned and subsequently acquired movable and immovable property owned by the BCMC. The line of credit, which matures on December 31, 2006, bears interest at a rate of 1.10 percentage points over the London Inter-Bank Offered Rate (LIBOR) Index (which was 6.39% at June 30, 2006). The balance on the line of credit at June 30, 2006 was $1,720,278.

Note 8 - Long-Term Debt -

A summary of long-term debt and capital lease obligations for the Subsidiary at June 30, 2006 follows:

USDA-FMHA loan, due in monthly installments through December 2036, at an interest rate of 4.50 percent, collateralized by BCMC revenue, converted from construction loan	$ 2,500,633
Capital leases, with varying rates of imputed interest, from 6.0 to 22.00 percent, collateralized by leased equipment	81,330
	2,581,963
Less: Current Portion	(111,037)
Long-Term Debt, Net of Current Portion	$ 2,470,926

As discussed further in Note 1, control over BCMC was transitioned to a private corporation subsequent to June 23, 2002. As a part of that transaction, the previously existing debt covenants were renegotiated with the holders of the debt to remove all of said covenants as long as no conditions of default exist under the lease agreement between the Louisiana State University Health Care Services Division and the BCMC. If occurrences that constitute an event of default do exist, then all covenants will be reinstated in their entirety. No such events occurred for the year ended June 30, 2006.

Scheduled principal repayments on debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Debt	Obligations Under Capital Leases
2007	$ 39,210	$ 75,255
2008	40,011	9,588
2009	42,895	-
2010	44,866	-
2011	46,927	-
Thereafter	2,286,724	-
Total	$ 2,500,633	84,843
Less: Amount Representing Interest Under Capital Lease Obligations		(3,514)
		$ 81,329

A summary of interest cost of borrowed funds follows:

Interest cost charged to operations	$ 200,680

Note 9 - Bond Payable -

During 2003, the Foundation issued Equipment and Capital Facilities Pooled Loan Program Revenue Bonds Series 2003B in the amount of $2,500,000 dated October 1, 2003. The bond was issued to finance the renovation of a health care facility. The bond was issued through the Louisiana Public Facilities Authority. The trust indenture established the maturity of this bond to be July 1, 2014. Hancock Bank of Louisiana serves as the Trustee and is the Mortgagee. The bonds are secured by a irrevocable direct pay letter of credit issued by Capital One in the amount of $2,374,979.

Under the terms of the Trust Indenture for the bonds, the Foundation is requested to fund a sinking fund account at the bank. The account is to be funded monthly for 1/12 of the principal amount to be paid at the next due date of the bond payment. The provisions of the bond contains certain covenants that the Foundation must comply with or maintain throughout the term of the bonds.

At June 30, 2006, the outstanding indebtedness consisted of the following:

Bond Series	Indenture Maturity	Interest Rate	Payable 6/30/06 Net of Unamortized Bond Costs of $53,153
2003B	7/01/14	The rate at June 30, 2006 was 4.48% and adjusts weekly.	$ 2,241,847

Interest expense for the year ended June 30, 2006 was $78,782.

Bonds are required to be redeemed as follows:

2007	$ 215,000
2008	225,000
2009	230,000
2010	240,000
2011	255,000
Thereafter	1,130,000
	$ 2,295,000

Note 10 - Insurance Programs -

Medical Malpractice Insurance

The BCMC is liable for services performed in prior years. Due to this liability, the BCMC maintains professional and general liability insurance to cover malpractice claims.

There were no material claims asserted or anticipated, and the BCMC has not accrued any losses for malpractice claims or expenses. Nevertheless, the future assertion of claims for occurrences prior to June 23, 2002 is possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

Note 11 - Functional Expenses -

During the year the BCMC's activities included closing out its former healthcare operations, including the evaluation of patient receivables and increasing the provision for bad debts, and rental activities. Expenses related to these operations are accumulated by function as follows:

Rental activities	$ 2,227,208
General and administrative services	62,572
Service Fees	30,000
Total	$ 2,319,780

Note 12 - Prior Period Adjustment -

A prior period adjustment was made to the net assets of BCMC to correct certain errors which resulted in an overstatement of Accounts Payable:

Net Assets at July 1, 2005, as Originally Reported	$ 2,680,398
To Correct the Overstatement of Accounts Payable During The Prior Year	60,756
Net assets at July 1, 2005, as Restated	$ 2,741,154

Note 13 - Commitments and Contingencies -

Operating Leases

The BCMC leased various equipment under operating leases that expired at various dates through June 2006. Total rental expense for the year ended June 30, 2006, for all operating leases was approximately $185,000.

Litigation

The BCMC is involved in litigation and regulatory investigations arising in the normal course of business. The BCMC is a member of the Louisiana Patients' Compensation Fund and therefore, under current Louisiana law, its liability is currently limited to the statutory maximum of $500,000 which is provided by a primary coverage of $100,000 with the Louisiana Hospital Association Malpractice and General Liability Trust, and an additional $400,000 through the State of Louisiana, Patients' Compensation Fund. This limit of liability, however, is not applicable to general liability claims. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the BCMC's future financial position or results of operations.

Note 14 - Hurricanes Katrina and Rita -

Hurricane Katrina hit the coasts of southeast Louisiana, Mississippi and Alabama on August 29, 2005. Hurricane Rita hit the coasts of southwest Louisiana and southeast Texas on September 24, 2005. Damages due to wind and flooding were catastrophic in these areas. As of June 30, 2006, BCMC estimates damages incurred of approximately $1,786,000 relating to the hurricanes. As of June 30, 2006, approximately $55,000 of hurricane related expenses was paid by BCMC. This amount is recorded in Account Receivable, as it will be reimbursed with insurance proceeds. The remaining funds to be expended are expected to be paid by either insurance proceeds or by FEMA.