

NATCHITOCHEs REGIONAL MEDICAL CENTER
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2006, 2005 AND 2004

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 1/24/07



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Page No.

Management's Discussion and Analysis.....i

Independent Auditors' Report on the Financial Statements and
Supplementary Information 1

FINANCIAL STATEMENTS

Consolidated Balance Sheets..... 3
Consolidated Statements of Revenue, Expenses, and Changes in Net Assets 4
Consolidated Statements of Cash Flows 5
Notes to Consolidated Financial Statements 7

SUPPLEMENTARY INFORMATION

Schedules of Net Patient Service Revenue 24
Schedules of Other Revenue..... 28
Schedules of Expenses – Salaries and Benefits..... 29
Schedules of Expenses – Medical Supplies and Drugs 31
Schedules of Expenses – Medical, Professional and Consulting Services..... 32
Schedules of Expenses – Other 33
History 34
Schedule of Per Diem or Other Amounts Paid
To or on Behalf of Commissioners 39
Schedule of Bonds Payable..... 40
Schedules of Ambulance Department Operating Performance..... 41
Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards 42

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by approximately \$2.4 million or roughly 4.5%.
- During the year, the Hospital's total net patient revenues increased approximately \$3.0 million or 8.3% to \$39,252,162 from the prior year while expenses increased \$4.0 or 11.7%. The Hospital had income from operations of \$348,934, which is approximately 0.9% of total operating revenue. The Hospital added a third OBGYN and with our Orthopedic Surgeon (added in 05) fully up and running our gross surgical revenue was up \$939,966. The hospital Joint Ventured (Natchitoches Outpatient Services, LLC) on a freestanding MRI unit this year and we have seen our Radiology revenue increase \$1,688,054.
- During the year, the Hospital revised its Bad Debt reserve methodology to recognize self pay accounts receivable collectability downward. This change was dramatic and an adjustment of \$1,239,759. This reduced net income by \$1,239,759 for the year. Despite this adjustment the hospital still was able to generate \$4,653,908 in cash from operating activities.
- The Hospital passed a 10-year Ambulance property tax in 2003 and received approximately \$786,402 in taxes this year. These taxes have been able to offset operational losses and provide funds for modernization of Ambulance equipment and expansion of service to rural parts of the Parish.
- During the fiscal year, the Hospital made the below capital investments for a total of approximately \$16,965,698.

Capital Investments	Vendor	Department	2006 Cost
CT 64 Multi Slice Scanner	GE Medical	Radiology	\$ 1,446,722
Precision 500 R&F Room	GE Medical	Radiology	\$ 289,995
Emergency Dept Module	Meditech	Emergency	\$ 140,000
21 Bed Expansion	Skip Converse	LTAC	\$ 790,915
Surgical, Diagnostic, Expansion	S. Converse	Surgery, X-Ray, ICU	\$ 10,545,064

The source of the funding for these projects was derived from operations and prior year issued bond proceeds.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Required Financial Statements

The basic financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amount of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures improvements in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide 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.

Financial Analysis of the Hospital

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and stated changes. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis (continued)

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

**Table 1
Condensed Balance Sheets**

	<u>2006</u>	June 30 <u>2005</u>	<u>2004</u>
Total Current Assets	\$ 10,418,878	\$ 10,082,521	\$ 8,176,795
Capital Assets – Net	32,246,476	28,799,717	25,027,271
Other Assets, Including Board - Designated Investments	<u>10,910,362</u>	<u>12,298,549</u>	<u>15,973,359</u>
Total Assets	<u>\$ 53,575,716</u>	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>
Current Liabilities	\$ 4,402,306	\$ 2,873,894	\$ 2,608,332
Long-term Debt/Liabilities	<u>9,030,217</u>	<u>8,455,000</u>	<u>8,800,000</u>
Total Liabilities	13,432,523	11,328,894	11,408,332
Net Assets	<u>40,143,193</u>	<u>39,851,893</u>	<u>37,769,093</u>
	<u>\$ 53,575,716</u>	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>

As can be seen in Table 1, total assets increased by \$2,394,929 to \$53,575,716 in fiscal year 2006, up from \$51,180,787 in fiscal year 2005. The change in total net assets results primarily from earnings and operating income in the current year along with the addition of Natchitoches Outpatient Services, LLC joint venture

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for cash of the fiscal years ended June 30, 2006, 2005 and 2004.

Table 2
Condensed Statements of Revenue, Expenses, and
Changes In Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue:			
Net Patient Svc Revenue	\$ 36,887,676	\$ 34,382,735	\$ 31,212,916
Other Revenue	<u>2,364,486</u>	<u>1,863,542</u>	<u>1,872,506</u>
Net Revenue	<u>39,252,162</u>	<u>36,246,277</u>	<u>33,085,422</u>
Expenses:			
Salaries & Benefits	18,862,187	16,392,427	14,828,299
Medical Supplies	3,474,336	2,770,322	2,273,533
Purchases Services	4,778,695	6,170,548	5,363,413
Other Operating Expense	8,783,649	7,364,155	7,275,241
Depr & Amort.	<u>3,004,361</u>	<u>2,131,104</u>	<u>1,994,792</u>
Total Operating Expense	<u>38,903,228</u>	<u>34,828,556</u>	<u>31,735,278</u>
Net Operating Income	<u>348,934</u>	<u>1,417,721</u>	<u>1,350,144</u>
Investment Income	437,132	390,476	506,309
Interest Expense	(413,128)	-0-	(8,767)
Non Operating Income	31,030	28,778	26,595
IGT Transfers	<u>-0-</u>	<u>-0-</u>	<u>1,486</u>
Excess of Revenues over Expense	403,968	1,836,975	1,875,767
Unrealized Holding Gains (Losses)	(112,668)	(38,725)	(363,073)
Consolidated Net Income - Non Controlling Interest	<u>(140,400)</u>	<u>(1,195)</u>	<u>-0-</u>
Comprehensive Income (Loss)	150,900	1,797,055	1,512,694
Net Assets – Beginning of Year	<u>39,566,148</u>	<u>37,769,093</u>	<u>36,256,399</u>
Net Assets – End of Year	<u>\$ 39,717,048</u>	<u>\$ 39,566,148</u>	<u>\$ 37,769,093</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Source of Revenue

Operating Revenue

During fiscal year 2006, the Hospital derived the majority, or approximately 94%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes ambulance property tax, cafeteria sales, contract meals, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2006, 2005 and 2004.

**Table 3
Payor Mix by Percentage**

	Year-end June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	44.9%	46.0%	46.1%
Medicaid	22.4%	21.7%	22.1%
Commercial Insurance	12.8%	14.5%	13.7%
Blue Cross	10.2%	9.3%	8.9%
Self-Pay and Other	9.7%	8.5%	9.2%
Total Patient Revenues	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes Ambulance property tax, cafeteria sales, rental income, and other miscellaneous services.

**Table 4
Other Revenue**

	Year-end June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Other Revenue:			
Dietary Sales	\$ 214,865	\$ 326,291	\$ 304,627
Rental Income	814,304	549,745	750,608
Ambulance Tax	786,402	740,556	730,445
Vending	44,768	46,350	39,408
Medical Records	8,447	10,469	7,263
Other	<u>260,537</u>	<u>190,131</u>	<u>40,155</u>
 Total Other Revenue	 <u>\$ 2,364,486</u>	 <u>\$ 1,863,542</u>	 <u>\$ 1,872,506</u>

Investment Income

The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$437,132 during fiscal year 2006.

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses and changes in net assets between 2006, 2005 and 2004.

Overall, activity at the Hospital as measured by patient admissions decreased by 1.0% to 4,185 admissions in 2006 from 4,229 admissions in 2005 from 3,979 admissions in 2004. Patient days decreased 1.2% to 17,393 from prior year of 17,601 in 2005, and 16,554 in 2004. The decrease was attributed to Geriatric Psych (56) and acute care days (52). As a result, the average length of stay for acute care patients (excluding newborns) remained flat at 3.7 days in 2006.

Our Long Term Care Units activity decreased by 1.4% to 35,000 days in 2006 versus 35,495 days in 2005, and 37,084 days in 2004, which represents 87% occupancy of the unit. The units census remained relatively flat. With the opening of a 30 bed assisted living center in our area and the age (50 years) of the current facility we feel good about where we are and our ability to hold our occupancy rate. Administration and the Board are looking into replacement of the facility and should have some concrete plans by the end of 2007.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (Continued)

The Hospital operates the district ambulance service that traditionally has had operating losses. Effective July 2003, the residents of Natchitoches Parish passed a 6.7 mil property tax to subsidize operations.

**Table 5
Patient and Hospital Statistical Data**

	Year-end June 30		
	2006	2005	2004
Admissions:			
Adult and Pediatric	3,959	3,946	3,745
Newborn	680	580	604
Long Term Care Unit	249	187	194
Geriatric Psych Unit	226	283	234
Patient Days:			
Adult and Pediatric	14,471	14,609	13,877
Medicare (Included in Adult & Pediatric)	7,489	7,694	7,401
Medicaid (Included in Adult & Pediatric)	4,061	3,789	3,538
Newborn	1,733	1,369	1,358
Long Term Care Unit	35,000	35,495	37,084
Geriatric Psych Unit	2,936	2,992	2,677
Operating Room Patients	1,920	2,774	2,488
Outpatient Registrations	52,819	49,299	45,135
Emergency Room Visits	20,264	18,461	16,413
Ambulance Runs	4,183	3,968	3,595
Average Daily Census (Excluding Newborn):			
Adult and Pediatric	39.65	40.02	38.02
Long Term Care Unit	95.89	97.25	101.60
Geriatric Psych Unit	8.04	8.20	7.33
Average Length of Stay (Excluding Newborn):			
All Acute Care Patients	3.66	3.70	3.71
Medicare Patients	5.33	5.45	5.25
Medicaid Patients	2.78	2.44	2.63
Long Term Care Unit Patients	140.56	189.81	191.15
Geriatric Psych Unit Patients	12.99	10.57	11.44
Percentage of Acute-Care Patient Days:			
Medicare	51.75%	52.67%	53.33%
Medicaid	28.06%	25.94%	25.50%
Full-Time Equivalents (FTE's)	460	429	425

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (Continued)

Total net patient service revenue increased \$2,504,941 or 7.3% in 2006.

Net patient service revenue was up primarily due to the revenue increases from Surgery, Emergency Room, and Radiology. While gross patient revenue increased \$6.1 million or 7.9% from prior year due to increased volume in Surgery, Lab, and Emergency Room

Allowances increased over prior year as described in the table below:

**Table 6
Allowance Summary**

	Year-end June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Allowances:			
Medicare Contractual Allowances	\$ 23,585,628	\$ 22,035,562	\$ 20,468,862
Medicaid Contractual Allowances	10,878,731	10,223,763	9,235,661
Blue Cross, Louisiana State Employees, and other Contractual Allowances	8,234,671	7,326,750	5,982,464
Other Adjustments	418,859	235,478	198,825
Uncompensated Care Reimbursement	<u>(3,342,971)</u>	<u>(2,300,727)</u>	<u>(2,619,648)</u>
Total Allowances	<u>\$ 39,774,918</u>	<u>\$ 37,520,826</u>	<u>\$ 33,266,164</u>

As a result of a continued effort in accounts receivable collection efforts, days in accounts receivable remained low at 53 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$412,460 were forgone during 2006, compared to \$235,478 in 2005, and \$198,825 in 2004. The Hospital has instituted an automated charity care system to assure consistent application of board policies. The Hospital assumes compliance with our charity policy resulted that only patients meeting specific criteria will be classified as a charity care.

Total salary and benefits expenses increased \$2,469,760 to \$18,862,187 in 2006, from \$16,392,427 in 2005, from \$14,828,299 in 2004, a 15.1% variance. The majority of the increases were attributable to the hospital moving to in-house Emergency Room Doctors (i.e. employees) versus contract Doctors in the past of \$613,644, the conversion of Geriatric Psych management contract from inclusion of staffing to hospital provided staffing of \$576,249, the addition of Natchitoches Outpatient Services, LLC of \$322,966, and increased Housekeeping and Maintenance personnel was needed when we moved into our expanded campus of \$126,726. The hospital has increased salaries in the Clinical personnel area due to market demands.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (Continued)

As a percentage of total revenue, salary and benefits expense was approximately 48.0%, 45.2% and 44.8% for the fiscal years ended June 2006, 2005, and 2004, respectively.

Supplies expense increased \$704,014 or 25.4% from the prior year. The majority of the increase, some \$301,641, comes from increased Orthopedic Surgery. We also saw a large increase in Laboratory and Blood supplies as we lost all of our blood and some of our supplies when we had a freak accident in April. These items were destroyed and have since been replaced.

Purchases services had a decrease of \$1,391,853 or 22.6% from prior year. The majority of the decrease, \$985,128, is due to changing our Geriatric Psych management services contract to allowing for us to provide staffing in-house. The employment of in-house ER doctors versus contract doctors has reduced the contract cost by \$346,492.

Other operating expenses increased approximately \$1,322,865 from prior year. Utility cost has increased \$563,622 and maintenance cost \$282,390 as we moved in our 55,000 square foot addition this year. Physician recruitment cost was up \$235,615 with the recruitment of 3 ER Doctors and 1 OBGYN during the year.

Depreciation expense was up \$873,257 from the prior year, as the \$10,545,064 of phase 2 of our construction project was moved onto the depreciation schedule during the year.

Total operating expense increased by \$4,074,672 for the year ended June 30, 2006 for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the board of commissioners and funds held by several investments under bond resolution. The net unrealized gain (loss) on market adjustments is excluded from this amount.

**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis (continued)

Capital Assets

During fiscal year 2006, the Hospital invested \$16,965,698 in a broad range of capital assets included in Table 7 below.

**Table 7
Capital Assets**

	Year-end June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 1,142,864	\$ 1,080,864	\$ 1,080,864
Building & Equipment	<u>55,799,348</u>	<u>39,742,231</u>	<u>36,900,180</u>
Subtotal	56,942,212	40,823,095	37,981,044
Less Accumulated Depr	27,690,710	24,716,835	22,740,469
Construction in Progress	<u>2,994,974</u>	<u>12,693,457</u>	<u>9,786,696</u>
Net Property, Plant & Equipment	<u>\$ 32,246,476</u>	<u>\$ 28,799,717</u>	<u>\$ 25,027,271</u>

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of a building expansion of an additional 21 bed unit to relocate our LTAC to the fourth floor, allowing additional beds during peak times.

In Table 8, the Hospital's fiscal year 2006 capital budget projects spending up to \$4,020,178 for capital projects. These projects will be financed from operations and board reserves. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

**Table 8
Fiscal Year 2005 Capital Budget**

Equipment Purchases	\$ 1,935,055
Construction (Ambulance Stations)	
Medical Office Renovations	565,000
Prior Year Approved Items	<u>1,520,123</u>
Total	<u>\$ 4,020,178</u>

**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis (continued)

Long-Term Debt

At year-end, the Hospital had \$9,667,862 in short-term and long-term debt. Of this amount, \$1,212,862 is a liability of Natchitoches Outpatient Services, LLC on its MRI machine. This has increased by \$867,862 in fiscal year 2006. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 18.0% of the Hospital's total assets at June 30, 2006 versus prior years of 17.2% and 18.6% respectively.

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.



LESTER, MILLER & WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 Bayou Rapides Rd • Alexandria, LA 71303

Members:

American Institute of CPA's

Society of Louisiana CPA's

Bobby G. Lester, CPA

John S. Wells, CPA

Robert G. Miller, CPA

Paul A. Delaney, CPA

Mary L. Carroll, CPA

Brenda J. Lloyd, CPA

Mailing Address: Post Office Box 8758 • Alexandria, Louisiana 71306-1758 • Telephone (318) 487-1450 • Facsimile (318) 445-1184

Independent Auditors' Report

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the accompanying consolidated financial statements of the Natchitoches Parish Hospital Service District and its Affiliates (the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2006, 2005 and 2004, as listed in the foregoing table of contents. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2006, 2005 and 2004, and the results of its operations and cash flows of such funds for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the Hospital's consolidated financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to auditing procedures applied by us in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Board of Commissioners
Natchitoches Parish Hospital Service District
Page Two

Management's Discussion and Analysis on pages "i" through "xi" is not a required part of the consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells

Certified Public Accountants
December 6, 2006



NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
JUNE 30,

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Cash and cash equivalents	\$ 1,481,175	\$ 1,754,830	\$ 1,157,331
Limited use assets (Note 4)	647,425	609,963	579,014
Patient accounts receivable, net (Note 3)	5,358,177	4,396,839	4,315,015
Estimated third-party payor settlements	695,025	1,295,761	212,409
Other receivables	147,237	193,886	106,444
Inventory	1,241,290	1,155,555	1,162,393
Prepaid expenses	502,325	408,279	411,597
Notes receivable - current (Note 16)	346,224	267,408	232,592
Total current assets	<u>10,418,878</u>	<u>10,082,521</u>	<u>8,176,795</u>
Other:			
Limited use assets (Note 4)	8,150,925	9,744,086	14,624,596
Property, plant and equipment, net (Note 5)	32,246,476	28,799,717	25,027,271
Unamortized bond issue cost (Note 6)	46,609	46,609	46,609
Unamortized capitalized construction interest (Note 6)	1,814,579	1,678,512	1,148,991
Notes receivable (Note 16)	710,449	658,342	153,163
Other	<u>187,800</u>	<u>171,000</u>	<u>-0-</u>
Total assets	<u>\$ 53,575,716</u>	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current:			
Accounts payable	\$ 2,186,910	\$ 1,152,202	\$ 1,112,783
Accrued expenses	1,570,143	1,370,040	1,162,678
Unearned revenue	7,608	6,652	7,871
Current portion of long-term debt (Note 8)	637,645	345,000	325,000
Total current liabilities	<u>4,402,306</u>	<u>2,873,894</u>	<u>2,608,332</u>
Long-term liabilities:			
Long-term debt (Note 8)	<u>9,030,217</u>	<u>8,455,000</u>	<u>8,800,000</u>
Total liabilities	<u>13,432,523</u>	<u>11,328,894</u>	<u>11,408,332</u>
Net assets:			
Invested in capital assets, net of related debt	22,578,614	19,999,717	15,902,271
Restricted net assets	647,425	609,963	579,014
Unrestricted net assets	<u>16,491,009</u>	<u>18,956,468</u>	<u>21,287,808</u>
Total controlling net assets	<u>39,717,048</u>	<u>39,566,148</u>	<u>37,769,093</u>
Noncontrolling interest in subsidiary	426,145	285,745	-0-
Total net assets	<u>40,143,193</u>	<u>39,851,893</u>	<u>37,769,093</u>
Total liabilities and net assets	<u>\$ 53,575,716</u>	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>

See accompanying notes to financial statements.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue:			
Net patient service revenue	\$ 36,887,676	\$ 34,382,735	\$ 31,212,916
Other revenue	<u>2,364,486</u>	<u>1,863,542</u>	<u>1,872,506</u>
Total revenue	<u>39,252,162</u>	<u>36,246,277</u>	<u>33,085,422</u>
Expenses:			
Salaries and benefits	18,862,187	16,392,427	14,828,299
Medical supplies and drugs	3,474,336	2,770,322	2,273,533
Medical, professional and consulting	4,778,695	6,170,548	5,363,413
Other expenses	7,739,103	6,416,238	6,352,812
Retirement	170,168	167,002	152,901
Insurance	855,482	758,811	758,788
Leases	18,896	22,104	10,740
Depreciation and amortization	<u>3,004,361</u>	<u>2,131,104</u>	<u>1,994,792</u>
Total expenses	<u>38,903,228</u>	<u>34,828,556</u>	<u>31,735,278</u>
Operating income (loss)	<u>348,934</u>	<u>1,417,721</u>	<u>1,350,144</u>
Nonoperating income:			
Interest income	95,666	45,979	16,046
Interest income from limited use assets	341,466	344,497	490,263
Interest expense	(413,128)	-0-	(8,767)
Net contributions (Note 14)	31,030	28,778	26,595
IGT transfer - administrative fee (Note 18)	<u>-0-</u>	<u>-0-</u>	<u>1,486</u>
Total nonoperating income	<u>55,034</u>	<u>419,254</u>	<u>525,623</u>
Excess of revenue over expenses	403,968	1,836,975	1,875,767
Less: consolidated net income attributable to noncontrolling interest	(140,400)	(1,195)	-0-
Other comprehensive income			
Unrealized holding gains (losses)	<u>(112,668)</u>	<u>(38,725)</u>	<u>(363,073)</u>
Comprehensive income (loss)	150,900	1,797,055	1,512,694
Net assets at beginning of year	<u>39,566,148</u>	<u>37,769,093</u>	<u>36,256,399</u>
Net assets at end of year	\$ <u>39,717,048</u>	\$ <u>39,566,148</u>	\$ <u>37,769,093</u>

See accompanying notes to financial statements.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 36,527,074	\$ 33,217,559	\$ 30,128,037
Other receipts from operations	2,412,091	1,774,881	1,834,515
Investment income received - nonrestricted	95,666	45,979	16,046
IGT transfer fee received	-0-	-0-	1,486
Cash payments to employees and for employee-related cost	(18,832,252)	(16,185,065)	(14,848,887)
Cash payments for other operating expenses	<u>(15,548,671)</u>	<u>(16,065,573)</u>	<u>(15,118,025)</u>
Net cash provided (used) by operating activities	<u>4,653,908</u>	<u>2,787,781</u>	<u>2,013,172</u>
Cash flows from investing activities:			
Collections on physician loans	-0-	-0-	14,645
Cash invested in assets limited as to use - investment	(437,132)	(390,476)	(490,263)
Redemption of investments/principal return	1,880,163	5,201,312	6,700,140
Loans to physicians	(593,837)	(729,872)	(45,651)
Cash invested in joint venture	(16,800)	-0-	-0-
Cash received for noncontrolling interest in subsidiary	-0-	284,550	-0-
Investment earnings	<u>341,466</u>	<u>344,497</u>	<u>490,263</u>
Net cash provided (used) by investing activities	<u>1,173,860</u>	<u>4,710,011</u>	<u>6,669,134</u>
Cash flows from capital and related financing activities:			
Interest expense	(413,128)	-0-	(8,767)
Capitalized construction interest	(166,554)	(532,831)	(448,080)
Principal payments on long-term debt	(582,138)	(325,000)	(770,000)
Cash received from long-term borrowings	1,450,000	-0-	-0-
Acquisition of property, plant and equipment	(6,420,633)	(6,071,240)	(7,682,866)
Contributions	<u>31,030</u>	<u>28,778</u>	<u>26,595</u>
Net cash provided (used) by capital and related financing activities:	<u>\$ (6,101,423)</u>	<u>\$ (6,900,293)</u>	<u>\$ (8,883,118)</u>

See accompanying notes to financial statements.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net increase (decrease) in cash and cash equivalents	\$ (273,655)	\$ 597,499	\$ (200,812)
Beginning cash and cash equivalents	<u>1,754,830</u>	<u>1,157,331</u>	<u>1,358,143</u>
Ending cash and cash equivalents	\$ <u>1,481,175</u>	\$ <u>1,754,830</u>	\$ <u>1,157,331</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>584,858</u>	\$ <u>537,750</u>	\$ <u>563,182</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 348,934	\$ 1,417,721	\$ 1,350,144
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Provision for bad debts	6,419,766	5,066,220	3,693,507
Depreciation and amortization	3,004,361	2,131,104	1,994,793
Amortization of loss on refinancing of 1979 Bonds	-0-	-0-	2,393
Amortization of bond issue cost	-0-	-0-	1,644
Physician loan amortization	462,914	189,877	282,004
Interest income	95,666	45,979	16,046
IGT transfer - administrative fee	-0-	-0-	1,486
(Increase) decrease in:			
Patient accounts receivable, net	(7,381,104)	(5,148,044)	(3,759,306)
Estimated third-party payor settlements	600,736	(1,083,352)	(1,019,080)
Other receivables	46,649	(87,442)	(34,864)
Inventory	(85,735)	8,838	(32,769)
Prepaid expenses	(94,046)	3,318	(44,012)
Increase (decrease) in:			
Accounts payable	1,034,708	39,419	(535,333)
Accrued expenses	200,103	207,362	99,646
Unearned revenue	<u>956</u>	<u>(1,219)</u>	<u>(3,127)</u>
Net cash provided by operating activities	\$ <u>4,653,908</u>	\$ <u>2,787,781</u>	\$ <u>2,013,172</u>

See accompanying notes to financial statements.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

The Natchitoches Parish Hospital Service District (referred to as "the District" or "the Hospital") was created by an ordinance of the Natchitoches Parish Police Jury (the "Jury") on October 19, 1955. The governing board of the District consists of seven members appointed by the Jury. Because the Jury appoints all commissioners of the Natchitoches Parish Hospital Service District, the District is a component unit of the Natchitoches Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Jury, or the other governmental units that comprise the financial reporting entity.

An affiliate, Natchitoches Hospital Foundation (referred to as "the Foundation"), was incorporated June 23, 1987, as a Louisiana nonprofit corporation. The Foundation has one class of members, consisting of one member, the District.

An affiliate, Natchitoches Outpatient Services, LLC (referred to as "NOP, LLC"), was organized January 22, 2004, as a Louisiana limited liability company. NOP, LLC is a perpetual limited liability company. The District has 50.9% ownership in NOP, LLC.

Nature of Business

The District provides outpatient, ambulance, emergency and acute services through its hospital unit. The District also provides inpatient intermediate and skilled nursing services through its long-term care unit and hospital "swing-beds". In June 1995, the District opened a unit to provide geriatric psychiatric services and was recognized as a "distinct part" unit effective July 1, 1995.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the District.

NOP, LLC provides outpatient therapy and MRI services.

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The District, Foundation and NOP, LLC use enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting

Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and the AICPA Audits of Providers of Health Care Services, published by the American Institute of Certified Public Accountants

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, treasury bills and mortgage backed securities purchased with a maturity of three months or less.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis

Investments

The Hospital classifies their investments as available-for-sale in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities are reported at fair value. Unrealized holdings gains and losses are reported as other comprehensive income.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Land was initially donated for hospital use, and it is recorded at the fair market value at the time of donation. Additional land was purchased, and it is recorded at cost.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use unrestricted resources first, then restricted resources as they are needed.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguish 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 are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation. An application for exemption under Section 501(c)(3) of the United States Internal Revenue Code has been filed and is pending response.

The Foundation is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

NOP, LLC does not pay federal corporate income taxes on its taxable income or is not allowed a net operating loss carryover or carryback as a deduction. Instead, the members are liable for individual federal income taxes on their respective shares of the NOP, LLC's taxable income or include their respective shares of NOP, LLC's net operating loss in their individual income tax returns.

Credit Risk

The Hospital provides medical care primarily to Natchitoches Parish residents and grants credit to patients, substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 9. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Net Patient Service Revenue (Continued)

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the District and its affiliates, after elimination of all significant intercompany balances and transactions. The District has recorded a minority interest for the portion of equity and income attributable to other investors in NOP, LLC.

Reclassifications

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2006, 2005 and 2004. 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. Balances at June 30 were as follows:

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2006				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S.				
Government	\$ -0-	\$ 4,178,645	\$ -0-	\$ 4,178,645
Cash and cash equivalents, certificates of deposit	1,964,790	3,350,471	-0-	5,315,261
Totals	\$ 1,964,790	\$ 7,529,116	\$ -0-	\$ 9,493,906
	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2005				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S.				
Government	\$ -0-	\$ 4,805,791	\$ -0-	\$ 4,805,791
Cash and cash equivalents, certificates of deposit	2,176,637	4,340,832	-0-	6,517,469
Totals	\$ 2,176,637	\$ 9,146,623	\$ -0-	\$ 11,323,260
	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2004				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S.				
Government	\$ -0-	\$ 4,907,844	\$ -0-	\$ 4,907,844
Cash and cash equivalents, certificates of deposit	2,790,249	7,877,229	-0-	10,667,478
Totals	\$ 2,790,249	\$ 12,785,073	\$ -0-	\$ 15,575,322

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 3 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient accounts receivable	\$ 8,973,177	\$ 6,528,397	\$ 6,248,015
Less provision for uncollectibles	<u>(3,615,000)</u>	<u>(2,131,558)</u>	<u>(1,933,000)</u>
Net accounts receivable	\$ <u>5,358,177</u>	\$ <u>4,396,839</u>	\$ <u>4,315,015</u>

With more uninsured and under insured patients needing healthcare, probability of collections is less likely. In an effort to recognize this occurrence in the industry and with the Hospital, management has begun in the current year, and will continue over the next two years, to adjust its estimate of uncollectible accounts using historical collection rates as a guide to change the estimate. Management is estimating the allowance for uncollectible accounts at 100% for accounts over 180 days and at lesser, but more conservative percentages for more current accounts. This change in accounting estimate decreased net income for the year ended June 30, 2006 by \$1,235,259. Had the methodology used in 2006 been applied for the years ended June 30, 2003 and after, net income would have increased <decreased> by <\$377,000>, \$53,000, and <\$476,000> for the years ended June 30, 2006, 2005, and 2004, respectively. It is impracticable at this time to estimate the impact of the change on future earnings.

If this methodology was incorporated during the years ended June 30, 2003 and after, the Hospital would have reported a decrease in equity at July 1, 2003 of \$435,000 and a decrease in net accounts receivable of \$858,000 and \$911,000 for the years ended June 30, 2005 and 2004, respectively. Applying the change in estimate to historical statements, comprehensive income would have been \$1,008,900, \$1,850,055, and \$1,036,694 for the years ended June 30, 2006, 2005, and 2004, respectively.

The following is a summary of the mix of receivables from patient and third-party payors at June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	16%	14%	14%
Medicaid	6%	4%	10%
Commercial and other third-party payors	30%	30%	26%
Patients	<u>48%</u>	<u>52%</u>	<u>50%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Medicare, Medicaid and third-party payors are shown net of contractual allowances

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 4 - LIMITED USE ASSETS

A summary of limited use assets is presented below:

	<u>2006</u>		<u>2005</u>		<u>2004</u>
<u>By Third Parties</u>					
Cash with paying agent - interest and principal, due 10/01 (Series 1994 and 2000 Bonds)	\$ 406,756	\$	392,023	\$	385,269
Donor contributions	227,843		207,713		186,935
Patient trust funds	12,826		10,227		6,810
Series 2000 proceeds to be disbursed	-0-		-0-		243
<u>By Board</u>					
Repair and replacement - cash and cash equivalents	1,991,828		1,915,160		1,900,058
Repair and replacement - investments	5,373,478		7,043,307		11,938,676
LHA trust deposits	785,619		785,619		785,619
Less limited use assets required for current liabilities	<u>(647,425)</u>		<u>(609,963)</u>		<u>(579,014)</u>
Non-current limited use assets	\$ <u>8,150,925</u>	\$	<u>9,744,086</u>	\$	<u>14,624,596</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2006

	<u>June 30, 2005</u>		<u>Additions</u>		<u>Deductions</u>		<u>June 30, 2006</u>
Land and improvements	\$ 1,080,864	\$	62,000	\$	-0-	\$	1,142,864
Buildings	23,409,912		11,546,239		-0-		34,956,151
Furniture, fixtures & equipment	16,332,319		4,510,878		-0-		20,843,197
Construction in progress	<u>12,693,457</u>		<u>846,581</u>		<u>10,545,064</u>		<u>2,994,974</u>
Total	53,516,552		16,965,698		10,545,064		59,937,186
Accumulated depreciation	<u>24,716,835</u>		<u>2,973,875</u>		<u>-0-</u>		<u>27,690,710</u>
Net	\$ <u>28,799,717</u>	\$	<u>13,991,823</u>	\$	<u>10,545,064</u>	\$	<u>32,246,476</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2005

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land and improvements	\$ 1,080,864	\$ -0-	\$ -0-	\$ 1,080,864
Buildings	22,991,866	418,046	-0-	23,409,912
Leasehold improvements	100,326	-0-	100,326	-0-
Furniture, fixtures & equipment	13,807,988	2,648,209	123,878	16,332,319
Construction in progress	<u>9,786,696</u>	<u>3,969,341</u>	<u>1,062,580</u>	<u>12,693,457</u>
Total	47,767,740	7,035,596	1,286,784	53,516,552
Accumulated depreciation	<u>22,740,469</u>	<u>2,127,794</u>	<u>151,428</u>	<u>24,716,835</u>
Net	\$ <u>25,027,271</u>	\$ <u>4,907,802</u>	\$ <u>1,135,356</u>	\$ <u>28,799,717</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2004.

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Land and improvements	\$ 1,071,937	\$ 8,927	\$ -0-	\$ 1,080,864
Buildings	22,025,275	966,591	-0-	22,991,866
Leasehold improvements	100,326	-0-	-0-	100,326
Furniture, fixtures & equipment	13,114,740	693,248	-0-	13,807,988
Construction in progress	<u>3,772,596</u>	<u>6,786,369</u>	<u>772,269</u>	<u>9,786,696</u>
Total	40,084,874	8,455,135	772,269	47,767,740
Accumulated depreciation	<u>20,785,396</u>	<u>1,955,073</u>	<u>-0-</u>	<u>22,740,469</u>
Net	\$ <u>19,299,478</u>	\$ <u>6,500,062</u>	\$ <u>772,269</u>	\$ <u>25,027,271</u>

Depreciation was calculated using the straight-line method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

These assets were obtained in part with funds from a Hill-Burton program grant of \$307,000.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 6 - OTHER ASSETS

Bond issue costs of \$46,609 were incurred for the 2000 Revenue Bonds and will be amortized using the straight-line method over the remaining life of the bonds (20 years) beginning in the fiscal year 2006

Capitalized interest of \$1,814,579 was accumulated as of June 30, 2006 for the 2000 Revenue Bonds and is amortized using the straight-line method over the remaining life of the bonds beginning in the fiscal year 2006.

NOTE 7 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$743,547, \$634,327, and \$561,758 of vacation pay at June 30, 2006, 2005, and 2004. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 2006, follows:

	<u>June 30,</u> <u>2005</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2006</u>	<u>Due Within</u> <u>One Year</u>
Series 2000 Bonds Payable	\$ 8,800,000	\$ -0-	\$ 345,000	\$ 8,455,000	\$ 365,000
Note payable	<u>-0-</u>	<u>1,450,000</u>	<u>237,138</u>	<u>1,212,862</u>	<u>272,645</u>
Total	\$ <u>8,800,000</u>	\$ <u>1,450,000</u>	\$ <u>582,138</u>	\$ <u>9,667,862</u>	\$ <u>637,645</u>
	<u>June 30,</u> <u>2004</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2005</u>	<u>Due Within</u> <u>One Year</u>
Series 2000 Bonds Payable	\$ 9,125,000	\$ -0-	\$ 325,000	\$ 8,800,000	\$ 345,000
Total	\$ <u>9,125,000</u>	\$ <u>-0-</u>	\$ <u>325,000</u>	\$ <u>8,800,000</u>	\$ <u>345,000</u>
	<u>June 30,</u> <u>2003</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2004</u>	<u>Due Within</u> <u>One Year</u>
Series 2000 Bonds Payable	\$ 9,435,000	\$ -0-	\$ 310,000	\$ 9,125,000	\$ 325,000
Series 1994 Bonds Payable	<u>460,000</u>	<u>-0-</u>	<u>460,000</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>9,895,000</u>	\$ <u>-0-</u>	\$ <u>770,000</u>	\$ <u>9,125,000</u>	\$ <u>325,000</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 8 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at June 30:

- Series 2000 Hospital Revenue Bond at 6% collateralized by a pledge and dedication of hospital revenue
- 5.375% note payable due in 60 monthly installments of \$27,668 including principal and interest

On June 14, 2000, the Series 2000 Hospital Revenue Bonds were issued. The bonds are secured by the full faith and credit of the Hospital as well as a lien and privilege on its revenues.

The Hospital has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the Hospital, certain multiples of the largest amount of principal and interest maturing on the Bonds in any future fiscal year and on any pari passu additional bonds hereafter issued. Those multiples range from 120% to 200%.

Other requirements under the terms of indebtedness are as follows:

- * Sale or disposition of Hospital property, plant and equipment is limited. Future debt agreements may not take priority over this series of debt.
- * Make monthly deposits equal to the pro-rata portion of the next principal and/or interest payment, which are to be maintained in fully backed or government securities investments, with market values greater than invested dollars.
- * Collect payment on all services rendered, except for an undisclosed, reasonable amount of charity care.
- * Maintain all assets in good working order
- * Carry full insurance coverage with a responsible licensed Louisiana company.
- * Maintain complete and accurate records and have an annual audit.
- * Maintain cash on hand of not less than 60 days of operating expenses net of depreciation and amortization.
- * Provide quarterly statements to the purchaser.
- * Protect tax exempt status and refrain from activities that would require payment of arbitrage to the IRS

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 637,645	\$ 555,718	\$ 1,193,363
2008	677,767	517,947	1,195,714
2009	713,960	477,753	1,191,713
2010	755,945	435,418	1,191,363
2011	487,545	397,623	885,168
2012 - 2016	2,745,000	1,525,650	4,270,650
2017 - 2021	<u>3,650,000</u>	<u>572,400</u>	<u>4,222,400</u>
Totals	\$ <u>9,667,862</u>	\$ <u>4,482,509</u>	\$ <u>14,150,371</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 9 - NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for cost reimbursement until January 1, 2006. Swing bed and skilled nursing facility routine services are reimbursed based on a prospectively determined rate per patient day. Geriatric psychiatry services are reimbursed based upon a cost reimbursement methodology, subject to a target amount per discharge. Effective July 1, 2005, this method of reimbursement begins a four (4) year transition to a prospective method based on length of stay, diagnosis, and other factors. In year one (1) the Hospital is paid seventy-five percent (75%) based on the old cost based system and twenty-five (25%) based on the new prospective system. In year two (2) the blend is fifty/fifty. In year three (3), twenty-five percent (25%) cost and seventy-five percent (75%) prospective. In year four (4) payments are scheduled to be fully prospective.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. Geriatric psychiatry services are reimbursed on a prospectively determined per diem rate.

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

The following is a summary of the Hospital's net patient service revenue for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service charges	\$ 83,082,360	\$ 76,969,781	\$ 68,172,587
Contractual adjustments - Medicare and Medicaid	(34,464,359)	(32,259,325)	(29,704,523)
Contractual adjustments - other third parties	(8,234,671)	(7,326,750)	(5,982,464)
Provision for bad debts	(6,419,766)	(5,066,220)	(3,693,507)
Free care	(412,460)	(235,478)	(198,186)
Other deductions	(6,399)	-0-	(639)
Uncompensated care reimbursement	<u>3,342,971</u>	<u>2,300,727</u>	<u>2,619,648</u>
Net patient service revenue	<u>\$ 36,887,676</u>	<u>\$ 34,382,735</u>	<u>\$ 31,212,916</u>

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 9 - NET PATIENT SERVICE REVENUE (Continued)

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid gross patient charges	\$ 52,998,669	\$ 51,837,479	\$ 43,193,680
Contractual adjustments with uncompensated care reimbursement	<u>(31,121,388)</u>	<u>(29,958,598)</u>	<u>(27,084,875)</u>
 Program patient service revenue without Medicaid UCC reimbursement	 \$ <u>21,877,281</u>	 \$ <u>21,878,881</u>	 \$ <u>16,108,805</u>
 Percent of gross patient charges	 64%	 67%	 63%
Percent of total net patient revenue	59%	64%	52%

The Hospital received interim amounts of \$3,342,971, \$2,300,727 and \$2,619,648 for Medicaid and self-pay uncompensated care services for the years ended June 30, 2006, 2005 and 2004, respectively, which represents 8%, 7%, and 8% of the net patient service revenue. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Should the State not fund or substantially change this program, it would have a significant impact on the Hospital's revenue.

NOTE 10 - RETIREMENT PROGRAM

Employees may participate in a qualified defined contribution retirement plan. Each employee is eligible to join the plan immediately upon employment. Employees become vested in the employer's contribution 25% per year until 100% vested at 4 years of employment. Under terms of the plan, each participating employee must make contributions of 4% and may make additional voluntary contributions. The District must make contributions equal to 25% of the employee's required contribution and can elect to contribute up to 100% of the employee's required contribution.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 10 - RETIREMENT PROGRAM (Continued)

Total payroll	\$	16,738,916
Total covered payroll	\$	12,164,791
Employee contributions	\$	486,590
Employer contributions	\$	179,645
Less forfeitures		<u>(9,477)</u>
Net employer contributions	\$	<u>170,168</u>

During the year ended June 30, 2005, management discovered that the District was not listed as a tax exempt organization under IRS code section 501(c)(3), which is required for its 403(b) retirement plan to be a "qualified" plan. Management is working with counsel to resolve this issue. Management believes qualification of the plan will be resolved with the IRS in their favor. Therefore, management has treated all of the retirement transactions as though the plan was qualified.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional 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 District. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 12 - WORKMEN'S COMPENSATION RISK

The District 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 District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 13 - CHARITY CARE

The Hospital has a policy of providing charity care to indigent patients in emergency situations. Amounts identified as charity care charges are \$412,460, \$235,478 and \$198,186 for the years ended June 30, 2006, 2005 and 2004, respectively. The related cost of care was approximately 53%, 57% and 60%, for the fiscal years ended in 2006, 2005 and 2004, respectively.

NOTE 14 - NET CONTRIBUTIONS

Contributions and related fundraising expenses are reflected in the following table.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Contributions	\$ 37,750	\$ 34,915	\$ 34,715
Interest earned on contributions	8,141	2,068	812
Less fundraising expenses	<u>(14,861)</u>	<u>(8,205)</u>	<u>(8,932)</u>
Net contributions	<u>\$ 31,030</u>	<u>\$ 28,778</u>	<u>\$ 26,595</u>

NOTE 15 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical/dental benefits plan. The District entered into an agreement as of July 1991, with Employee Benefit Services, Inc., for supervision of the plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of \$50,000 per year up to specific individual maximums of \$1,000,000.

NOTE 16 - NOTES RECEIVABLE AND PHYSICIAN CONTRACT GUARANTEES

The following is a summary at June 30. Management asserts no allowances for uncollectible accounts are needed.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Physician notes	\$ 58,003	\$ -0-	\$ 13,393
Physician contract guarantees	<u>998,670</u>	<u>925,750</u>	<u>372,362</u>
	1,056,673	925,750	385,755
Less current maturities	<u>(346,224)</u>	<u>(267,408)</u>	<u>(232,592)</u>
Long-term notes receivable	<u>\$ 710,449</u>	<u>\$ 658,342</u>	<u>\$ 153,163</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NOTE 17 - CONTINGENCIES

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Third-Party Government-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the programs. Effective October 1, 1983, the Medicare program discontinued its cost-based reimbursement system for inpatient services. Under the program, the District receives a fixed fee for each patient, which is determined by the government. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Workmen's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. The District's obligation for uncompensated services was fulfilled on July 17, 1998. Additionally, the District is obligated to provide community service.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 18 - IGT TRANSFER - ADMINISTRATIVE FEE

The Hospital entered into a cooperative endeavor agreement with the State of Louisiana under Act No. 143 of the First Extraordinary Session of the 2000 Louisiana Legislature ("Act 143"). Act 143 provides for an Intergovernmental Transfer (IGT) to the Hospital whereby payments were made to the Hospital and 99.5% of the funds were transferred to the Natchitoches Parish Police Jury (Police Jury) for transfer to the State of Louisiana. The Hospital was authorized to retain an amount equal to one-half of one percent (0.5%) of the Medicaid Enhancement Pool payment as an administrative fee. By cooperative endeavor, the administrative fee was equally divided between the Hospital and the Natchitoches Parish Police Jury. The Natchitoches District Attorney's office requested an opinion from the Louisiana Attorney General's (AG) office regarding the legality of equally dividing the administrative fee between the Hospital and the Police Jury under Louisiana and Medicaid laws. On August 23, 2001, the AG opined finding no prohibition prohibiting the Hospital from sharing with the Police Jury under Louisiana law, and acknowledged receiving similar assurance from experts in Medicaid law. The \$1,486 fee retained by the Hospital (0.25%) for 2004 is reported as non-operating income. To avoid distortion of the Hospital's cash flow statement, the \$594,697 transferred to the Hospital from the State of Louisiana and the \$593,211 transferred by the Hospital to the Police Jury were not reported on the Hospital's cash flow statement. The transfer to the Police Jury includes the Police Jury's share of the administrative fee.

NOTE 19 - COMMITMENTS

The Hospital entered into two construction contracts, which totaled \$12,038,228, including change orders as of June 30, 2006. The Hospital paid \$10,179,678 towards this commitment and one project is complete as of June 30, 2006.

SUPPLEMENTARY INFORMATION

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Daily patient services:			
Routine services	\$ 4,008,699	\$ 3,848,875	\$ 3,661,483
Intensive care	1,504,820	1,520,230	1,412,360
Nursery	313,873	267,003	262,250
Long-term care	3,707,590	3,580,757	3,418,706
Swing bed	1,372	1,568	1,470
Geriatric psych	<u>2,994,210</u>	<u>3,071,460</u>	<u>2,747,010</u>
Total daily patient services	<u>12,530,564</u>	<u>12,289,893</u>	<u>11,503,279</u>
Other professional services:			
Operating and recovery room			
Inpatient	4,143,986	3,450,005	2,213,275
Outpatient	<u>3,781,236</u>	<u>3,535,251</u>	<u>3,559,838</u>
Total	<u>7,925,222</u>	<u>6,985,256</u>	<u>5,773,113</u>
Labor and delivery			
Inpatient	727,837	644,745	718,653
Outpatient	<u>136,472</u>	<u>94,437</u>	<u>106,020</u>
Total	<u>864,309</u>	<u>739,182</u>	<u>824,673</u>
Anesthesia			
Inpatient	29,858	25,710	13,653
Outpatient	<u>33,517</u>	<u>30,749</u>	<u>21,471</u>
Total	<u>63,375</u>	<u>56,459</u>	<u>35,124</u>
Radiology, ultrasound, MRI & CT scan			
Inpatient	3,673,857	3,617,955	3,304,586
Outpatient	<u>10,981,725</u>	<u>9,349,573</u>	<u>7,855,163</u>
Total	<u>14,655,582</u>	<u>12,967,528</u>	<u>11,159,749</u>
Laboratory			
Inpatient	5,406,042	5,324,238	4,801,167
Outpatient	<u>5,430,177</u>	<u>5,103,297</u>	<u>4,272,468</u>
Total	<u>\$ 10,836,219</u>	<u>\$ 10,427,535</u>	<u>\$ 9,073,635</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Blood			
Inpatient	\$ 504,543	\$ 495,383	\$ 384,859
Outpatient	<u>172,088</u>	<u>157,300</u>	<u>122,204</u>
Total	<u>676,631</u>	<u>652,683</u>	<u>507,063</u>
Inhalation therapy			
Inpatient	4,442,166	4,344,964	3,684,513
Outpatient	<u>338,953</u>	<u>288,919</u>	<u>302,480</u>
Total	<u>4,781,119</u>	<u>4,633,883</u>	<u>3,986,993</u>
Physical therapy			
Inpatient	449,327	318,487	249,340
Outpatient	<u>1,480,026</u>	<u>1,070,375</u>	<u>809,667</u>
Total	<u>1,929,353</u>	<u>1,388,862</u>	<u>1,059,007</u>
Occupational therapy			
Inpatient	199,780	103,992	138,045
Outpatient	<u>295,168</u>	<u>410,217</u>	<u>194,431</u>
Total	<u>494,948</u>	<u>514,209</u>	<u>332,476</u>
Speech therapy			
Inpatient	51,225	38,708	38,953
Outpatient	<u>232,265</u>	<u>291,168</u>	<u>158,573</u>
Total	<u>283,490</u>	<u>329,876</u>	<u>197,526</u>
Electrocardiology			
Inpatient	1,628,888	1,549,264	1,535,423
Outpatient	<u>2,666,878</u>	<u>2,587,050</u>	<u>2,467,116</u>
Total	<u>4,295,766</u>	<u>4,136,314</u>	<u>4,002,539</u>
Central services			
Inpatient	1,444,051	1,399,674	1,185,727
Outpatient	<u>560,956</u>	<u>514,849</u>	<u>411,947</u>
Total	<u>\$ 2,005,007</u>	<u>\$ 1,914,523</u>	<u>\$ 1,597,674</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Pharmacy			
Inpatient	\$ 8,047,391	\$ 8,216,608	\$ 7,438,577
Outpatient	<u>1,792,574</u>	<u>1,700,736</u>	<u>1,561,665</u>
Total	<u>9,839,965</u>	<u>9,917,344</u>	<u>9,000,242</u>
Cardiac rehab			
Inpatient	372	62	-0-
Outpatient	<u>85,168</u>	<u>101,695</u>	<u>106,476</u>
Total	<u>85,540</u>	<u>101,757</u>	<u>106,476</u>
Emergency room			
Inpatient	1,436,874	1,299,470	1,099,859
Outpatient	<u>6,639,610</u>	<u>5,528,851</u>	<u>5,066,636</u>
Total	<u>8,076,484</u>	<u>6,828,321</u>	<u>6,166,495</u>
Observation			
Outpatient	<u>505,878</u>	<u>152,407</u>	<u>155,154</u>
Ambulance			
Outpatient	<u>2,882,884</u>	<u>2,724,693</u>	<u>2,491,332</u>
Physician clinic			
Outpatient	<u>350,024</u>	<u>164,813</u>	<u>106,290</u>
School-based clinic			
Outpatient	<u>-0-</u>	<u>39,763</u>	<u>40,548</u>
Wellness center			
Outpatient	\$ <u>-0-</u>	\$ <u>4,480</u>	\$ <u>35,000</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Montgomery clinic			
Outpatient	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>18,199</u>
Total other professional services	<u>70,551,796</u>	<u>64,679,888</u>	<u>56,669,308</u>
Total patient service charges	83,082,360	76,969,781	68,172,587
Contractual adjustments - Medicare and Medicaid	34,464,359	32,259,325	29,704,523
Contractual adjustments - other	8,234,671	7,326,750	5,982,464
Provision for bad debts	6,419,766	5,066,220	3,693,507
Free care	412,460	235,478	198,186
Other deductions	6,399	-0-	639
Uncompensated care reimbursement	<u>(3,342,971)</u>	<u>(2,300,727)</u>	<u>(2,619,648)</u>
Total allowances	<u>46,194,684</u>	<u>42,587,046</u>	<u>36,959,671</u>
Net patient service revenue	\$ <u>36,887,676</u>	\$ <u>34,382,735</u>	\$ <u>31,212,916</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF OTHER REVENUE
YEARS ENDED JUNE 30,**

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Other revenue:					
Rental income	\$ 814,304	\$	549,745	\$	730,608
Medical records	8,447		10,469		7,263
Dietary sales	214,865		326,291		304,627
Vending revenue	44,768		46,350		39,408
Ambulance tax	786,402		740,556		730,445
Grants	235,163		-0-		-0-
Other	260,537		190,131		40,155
Janitorial revenue	<u>-0-</u>		<u>-0-</u>		<u>20,000</u>
 Total other operating revenue	 \$ <u>2,364,486</u>	 \$	 <u>1,863,542</u>	 \$	 <u>1,872,506</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries:			
Human resources	\$ 102,949	\$ 110,753	\$ 95,867
Administration	438,463	415,035	490,832
Information systems	181,654	180,895	158,135
Accounting	145,404	137,093	126,108
Admitting	365,718	347,048	332,325
Business office	317,846	317,502	295,971
Housekeeping	410,530	316,832	308,859
Dietary and cafeteria	385,293	397,556	378,401
Laundry	41,182	33,750	14,100
Plant operations and maintenance	269,673	236,645	207,008
Nursing administration	687,727	624,296	654,125
Medical records	281,111	272,944	265,815
Nursing services	2,024,142	1,922,754	1,803,588
ICU	862,907	722,993	662,840
Geriatric psych	576,249	(599)	155,696
Nursery	248,025	218,791	200,965
Long-term care	1,968,067	1,864,512	1,697,048
Operating room	910,442	865,583	715,521
Labor and delivery	305,470	281,708	316,091
Radiology	766,680	666,772	576,550
Laboratory	551,850	465,159	409,667
Respiratory therapy	467,675	448,855	366,297
Physical therapy	669,081	415,278	374,751
Occupational therapy	207,780	231,286	214,947
Speech therapy	88,661	95,900	56,104
Cardiovascular	148,934	144,734	131,639
Purchasing	71,274	69,474	65,543
Pharmacy	189,025	216,385	220,769
Cardiac rehab	51,282	55,271	49,930
Emergency room	1,889,575	1,275,931	919,985
Ambulance	1,001,398	962,312	772,902
Physician clinic	112,849	67,127	55,948
School-based clinic	-0-	36,334	33,787
Montgomery clinic	-0-	-0-	7,180
Wellness center	-0-	19,015	46,757
	<hr/>	<hr/>	<hr/>
Total salaries	\$ 16,738,916	\$ 14,435,924	\$ 13,182,051

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – SALARIES AND BENEFITS (Continued)
YEARS ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Benefits:			
FICA and Medicare tax	\$ 1,199,442	\$ 1,042,434	\$ 954,200
Hospital insurance	907,936	891,020	635,298
Other	<u>15,893</u>	<u>23,049</u>	<u>56,750</u>
Total benefits (excluding retirement)	<u>2,123,271</u>	<u>1,956,503</u>	<u>1,646,248</u>
Total salaries and benefits	\$ <u>18,862,187</u>	\$ <u>16,392,427</u>	\$ <u>14,828,299</u>

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Nursing service	\$ 52,293	\$ 53,033	\$ 69,399
ICU	36,804	32,401	29,538
Geriatric psych	6,656	6,400	7,062
Nursery	17,181	20,290	17,687
Long-term care	227,988	180,286	178,180
Operating room	1,273,849	972,208	624,724
Labor and delivery	118,446	101,958	73,059
Anesthesiology	31,584	26,717	24,816
Radiology, nuclear medicine, CT scan	187,551	172,058	200,611
Laboratory and blood	938,677	697,379	589,322
Respiratory therapy	155,316	100,351	95,454
Physical therapy	12,248	606	3,417
EKG	12,397	16,069	15,132
Central supply	188,701	202,224	178,130
Pharmacy	24,924	26,152	26,927
Cardiac rehab	799	959	1,594
Emergency room	146,565	122,044	108,120
Ambulance	34,829	36,516	30,313
Physician clinic	7,528	2,671	-0-
Montgomery clinic	-0-	-0-	31
School-based clinic	-0-	-0-	17
	<hr/>	<hr/>	<hr/>
Total medical supplies and drugs	\$ <u>3,474,336</u>	\$ <u>2,770,322</u>	\$ <u>2,273,533</u>

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – MEDICAL, PROFESSIONAL AND
CONSULTING SERVICES
YEARS ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Routine nursing	\$ 237,891	\$ 371,006	\$ 278,231
ICU	145,068	228,718	216,933
Geriatric psych	506,019	1,491,147	991,484
Nursery	10,605	2,064	-0-
LTCU	41,128	48,902	100,339
Operating room	90,799	4,800	-0-
Labor and delivery	2,172	160	-0-
Radiology, ultrasound, CT scan	228,117	413,130	439,676
Laboratory	290,612	181,214	120,871
Respiratory therapy	134,840	69,794	7,917
Physical therapy	102,088	53,570	50,465
Occupational therapy	5,313	-0-	-0-
Speech therapy	2,753	-0-	-0-
Pharmacy	2,074,648	2,115,098	1,870,124
Emergency room	612,119	958,611	1,051,619
Other	8,670	285	397
Sleep study	273,805	230,150	202,875
Montgomery clinic	-0-	-0-	24,364
School-based clinic	12,048	1,899	8,118
	<u> </u>	<u> </u>	<u> </u>
Total medical, professional and consulting	\$ <u>4,778,695</u>	\$ <u>6,170,548</u>	\$ <u>5,363,413</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – OTHER
YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Service fees	\$ 1,782,503	\$ 1,600,183	\$ 1,835,665
Legal and accounting	147,351	198,670	131,547
Non-medical supplies	1,795,250	1,735,518	1,557,239
Repairs and maintenance	620,832	338,442	392,403
Utilities	1,537,308	973,688	903,901
Telephone	85,182	75,745	78,874
Travel and fuel - ambulance	75,780	53,085	33,316
Travel and fuel - other	89,622	61,214	66,303
Rental expense	263,744	203,749	199,551
Education expense	28,507	36,871	34,797
Scholarships	10,900	8,000	10,868
Licenses, dues and subscriptions	365,077	361,850	290,669
Patient days tax	227,055	226,794	236,403
Advertising	121,502	154,642	127,713
Recruitment	542,208	306,593	403,568
Other	<u>66,282</u>	<u>81,196</u>	<u>49,995</u>
 Total other expenses	 \$ <u>7,739,103</u>	 \$ <u>6,416,238</u>	 \$ <u>6,352,812</u>

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY

The Natchitoches Parish Hospital was built by the people of the Parish of Natchitoches, Louisiana, in cooperation with the United States Government, and is operated by the Natchitoches Parish Hospital Service District as created by the Police Jury of Natchitoches Parish, Louisiana.

In consideration of an agreement between the Police Jury of Natchitoches Parish, Louisiana, and the Natchitoches Parish Hospital Service District whereby the Police Jury agreed to construct, complete and equip a hospital in Natchitoches Parish, the Hospital Service District agrees to do and perform the following:

1. To operate the District for the duration of this twenty-year agreement as a non-profit institution in accordance with an agreement entered into by and between the Parish and the United States.
2. To maintain and operate the District and assume and pay the expenses of operations and maintenance to the extent of the income and revenues derived therefrom
3. To have full and complete charge of the management and operation of the District and conduct and operate said District at all times in accordance with acceptable standards of hospital practice.

The Parish covenants to do and perform, as consideration for this agreement, the following:

1. To equip the hospital building for hospital purposes with modern equipment sufficient to meet the needs of present day hospital practice. If, however, the District desires to replace said equipment with new equipment, it may do so, and said new equipment shall be and remains the property of the Parish if paid for out of the income resulting from the operation of the District. It is understood and agreed, however, that the Parish shall not be responsible for the securing of additional equipment other than that already purchased or installed when the District takes possession of the premises.
2. To levy the special tax of one mill on the dollar of all property subject to state taxation in the Parish for a period of three years beginning with the year 1956, as authorized by the special election held in the Parish on November 15, 1955, and the Parish shall pay to the District the net proceeds of said tax, as when collected. Said net proceeds shall be used by the District solely to defray the costs of operating and maintaining the District described herein, and proceeds at such intervals as the Parish may require.

During the year ended September 30, 1965, the Natchitoches Parish Hospital was enlarged by the addition of a nursing home, an autopsy room, new patient rooms and additional administrative and storage space. The new construction was financed by: (1) a grant from the United States Government under the Hill-Burton Act in the amount of \$307,000; (2) proceeds of a \$400,000 bond issue; and, (3) revenues of the Natchitoches Parish Hospital. The \$400,000 of Natchitoches Parish, Louisiana, Hospital Improvement Revenue Bonds, 3 1/2%, Series 1963, were purchased by the United States of America, Housing and Home Finance Agency. These bonds were retired in 1979.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

On June 14, 1977, a seven million dollar (\$7,000,000) bond issue was passed by the people of Natchitoches Parish. The seven million dollars (\$7,000,000) consisted of four million five hundred thousand dollars (\$4,500,000) of Public Improvement Bonds to be paid by ad valorem taxes. Two million five hundred thousand dollars (\$2,500,000) were to be Revenue Bonds and were to be paid off out of the general operating revenue of the District. Pursuant to a public hearing held on March 6, 1979, the District was authorized to issue \$4,500,000 of Hospital Revenue Bonds in lieu of the \$2,500,000 of Hospital Revenue Bonds

On May 22, 1978, the Public Improvement Bonds were sold. The Public Improvement Hospital Bonds are dated April 1, 1978, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding six and one-half percent (6 1/2%) per annum on any bond in any interest payment period. Said interest to be payable April 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year. Bonds numbered 204 to 900, inclusive, are callable for redemption by the District in the inverse order of their maturities, and if less than a full maturity, then by lot within such maturity, on any interest payment date on or after April 1, 1988, at the principal amount thereof and accrued interest to the date fixed for redemption, provided that official notice of such call of any of the bonds for redemption date by means of publication of an appropriate notice one time in a financial newspaper or journal published in the City of New York, or in the City of New Orleans, Louisiana, and sent by registered mail to the place of payment of the bonds. Bonds of this issue numbered 1 to 203, inclusive, are not callable for redemption prior to their stated dates of maturity. The bonds are secured by a special tax to be imposed and collected annually in excess of all other taxes on all the property subject to taxation within the territorial limits of the District. On October 1, 1985, funds were deposited in an irrevocable trust and zero coupon United States of America Trust securities were purchased. The securities began maturing in February 1995, and will be used to pay payments on the bonds until payment in full. No collections of taxes were required after that time.

In May, 1979, the Hospital Revenue Bonds were sold. These bonds are dated April 1, 1979, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding seven and seven-eighths percent (7 7/8%) per annum on any bond in any interest period. Said interest to be payable October 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year.

The Series 1979 Revenue Bonds are also subject to redemption in whole, at any time, or in part, at any interest payment date, at the option of the District upon the occurrence of any of the following conditions or events: (1) if title to, or the permanent use of, or use for a limited period of, substantially all of the District is condemned; or (2) if the title to substantially all of the District is found to be deficient to the extent that the Hospital is untenable or the efficient utilization of the District by the District is substantially impaired; or (3) if substantially all of the District is damaged or destroyed by fire or other casualty; or (4) if as a result of any changes in the Constitution of the United States of America or of the State of Louisiana or of legislative or administrative action, or failure of administrative action, by the United States or the State of Louisiana, or any agency or political subdivision thereof, or by reason of any judicial decision, (i) the Resolution becomes void or unenforceable or impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities are imposed on the District, including without limitation Federal, state or other ad valorem property, income or other taxes being imposed on the property of the District. In the event of such redemption, the Bonds shall be subject to redemption at the principal amount thereof plus accrued interest to the date of redemption, but without premium.

The Series 1979 Bonds are issued pursuant to a Resolution, under which payment of the principal of, redemption premium, if any, and interest on the Series 1979 Bonds is secured by a pledge of the income, revenues, receipts and accounts receivable derived by, payable or accruing to the District by reason of its operation of the District, subject to payment of the operating expenses of the District.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

The Series 1979 Bonds are limited obligations of the District which are payable solely from revenues derived by the District from its operation of the Hospital. The Series 1979 Bonds are not an indebtedness or pledge of the general credit of the State of Louisiana, the Parish or City of Natchitoches or the District. Neither the District nor any of the assets of the District are pledged or mortgaged as security for the Series 1979 Revenue Bonds.

On February 26, 1980, the Louisiana State Bond Commission approved a notice of intention to issue not exceeding \$750,000 of Hospital Revenue Bonds to bear interest at rates not exceeding 9 1/4% per annum, the proceeds of which will be used for the purpose of constructing improvements to the existing facilities or to provide additional facilities, said bonds are to be secured by and payable solely from the District from operations, to mature at such time not exceeding 30 years from date of issuance, and subject further to the approval of the Natchitoches Parish Police Jury. In lieu of issuing these bonds the District made an application for the approval to the State Bond Commission to issue \$500,000 of Certificates of Indebtedness at an interest rate not to exceed eleven and one-half percent per annum. This application was approved on September 1, 1981. The \$500,000 in Certificates of Indebtedness were issued on April 6, 1982. Certificates totaling \$150,000 were issued to each of three banks in Natchitoches. These Certificates of Indebtedness were paid in full on September 28, 1984.

On November 20, 1985, the District's Commissioners resolved to donate a portion of land to the Natchitoches Parish Police Jury so they could construct a parish health clinic. The act of donation was made by resolution of the Board of Commissioners on October 23, 1987. The District's basis in the donated land was \$8,200.

An ambulance service tax is collected by the Natchitoches Parish Police Jury. The tax money is forwarded to the District upon submitting ambulance cost for the year. A ten-year renewal was passed in 1986. The voters of Natchitoches Parish voted not to renew this tax in July 1996.

Effective January 30, 1987, the Long-Term Care Unit qualified as a Medicare participating skilled nursing facility. As of September 25, 1987, a home health program was begun.

On December 1, 1988, the District began renting office space for four physicians in a newly constructed physician office building.

During the year ended June 30, 1990, the District purchased approximately ten acres of land on Keyser Avenue. The State of Louisiana expropriated one quarter acre for road right-of-way.

During the year ended June 30, 1991, the District began an \$845,000 renovation of the fourth and fifth floors of the Hospital which include two additional elevators and a rehabilitation fitness center. The Hospital began redecorating and refurbishing 84 patient rooms. These renovations were completed in fiscal year 1992.

During the year ended June 30, 1992, the District began replacing the chillers and completed replacement of the chillers in fiscal year 1993. The Hospital began and nearly completed a building to be rented as a dialysis center.

During the year ended June 30, 1994, the District completed construction of the dialysis center and began construction of rental facilities for a mental health unit and an obstetrics/gynecology doctors' office. The District also refinanced \$3,600,000 of Revenue bonds. As with the 1979 series, the \$3,560,000 of Series 1994 Bonds, dated May 19, 1994, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital. The interest rates vary from 3.95% to 5.5%

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

The District completed construction of the mental health unit, the obstetrics/gynecology doctors' office, senior care center and remodeling of the labor and delivery rooms during the fiscal year ended June 30, 1995. A cooperative endeavor with Northwest Psychiatry, Inc. resulted in the establishment of an adolescent psychiatric program in Natchitoches Parish. Additionally, the Hospital began its own geriatric psychiatric program on the hospital campus just prior to year end.

Effective July 1, 1995, the Hospital's geriatric psychiatric unit received "Distinct Part" status which provides for reasonable cost reimbursement of necessary services to Medicare patients. In February 1996 the cooperative endeavor with Northwest Psychiatry, Inc. ended as Medicaid, the primary payor source for the adolescent facility, tightened its admission and length of stay criteria. The result was an inadequate census and the unit was closed.

The District began leasing twenty-one beds and selling ancillary services to Satellite Rehab, Inc., a separately licensed hospital and unrelated party, on December 1, 1997. Satellite Rehab, Inc. offers inpatient rehabilitative services.

Also, on December 1, 1997, the District entered into a management agreement with Christus Health (the "Manager"). The Manager is responsible for providing an administrator for routine administrative services, making recommendations for the overall rate structure, preparing monthly reports to the Board, managing cash and investments, preparing annual budgets and reviewing the insurance program. The Board of Commissioners retained all authority and control over the District.

During the year ended June 30, 2000, the District financed \$10,000,000 of 6% Series 2000 Revenue Bonds. The \$10,000,000 of Series 2000 bonds, dated June 14, 2000, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital and must be used for expansion of hospital facilities.

The District received escrow funds in the amount of \$5,000,000 from Christus Health on March 3, 2000 as a part of an agreement with the District to be used for expansion of outpatient facilities. As certain conditions were met, the \$5,000,000 was earned during 1999, 2000, 2001 and 2002.

The District ceased operations of the home health and partial day psychiatric services in June 2000.

During the year ended June 30, 2002, the Hospital renovated the second and third floor of the tower as part of the beginning of a three-phase construction project, which will include a new outpatient service center. This project is being financed by the issuance of the Series 2000 Revenue Bonds of \$10,000,000 and from the \$5,000,000 contribution received by Christus Health.

The Hospital continued its three-phase construction project during 2004 with the completion of the renovation of the second and third floors and expected completion of the new outpatient service center by September of 2005. The final phase of the project, renovation of the first floor, will start after the completion of the outpatient service center.

The Hospital entered into a joint venture with local physicians and created Natchitoches Outpatient Services, LLC. NOP, LLC offers outpatient therapy services and MRI services. NOP, LLC began operations in June of 2005.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

The Hospital has changed its d/b/a name to Natchitoches Regional Medical Center to reflect its regional healthcare status.

Christus Health conveyed a medical office building to the Hospital in July 2006. The conveyance contains an act of re-conveyance which is subject to the term of the management agreement with Christus Health. At the end of the agreement, the Hospital will recognize the building as an asset and the income based at fair market value.

In September of 2006, the Hospital opened the new outpatient center and started renovation of the first and fourth floor. The fourth floor will be leased to a rehab hospital.

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULE OF PER DIEM
OR OTHER AMOUNTS PAID TO OR ON BEHALF OF COMMISSIONERS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

<u>Board Member</u>	<u>Per Diem Amounts Paid on Behalf of Commissioners</u>
Coley Gahagan	\$ 120
Ronald Corkern	360
Dr Chris Ingram	360
Dr. Otis Barnum	120
Dr Phyllis Mason	160
Frankie Ray Jackson	240
William Hymes	200
John Luster	200
George Celles, IV	<u>320</u>
	\$ <u>2,080</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULE OF BONDS PAYABLE
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

NATCHITOCHE PARISH HOSPITAL	RATES	PAYMENT DATES	ISSUE DATES	FINAL MATURITY DATE	ANNUAL SERIAL PAYMENTS	BONDS			
						AUTHORIZED	ISSUED	RETIRED	OUTSTANDING
Revenue bonds	6 0%	4/1; 10/1	6/14/00	10/1/2020	365 000 (2007) 380 000 (2008) 410 000 (2009) 435,000 (2010) 480 000 (2011) 490,000 (2012) 515 000 (2013) 545 000 (2014) 580 000 (2015) 615 000 (2016) 650 000 (2017) 685 000 (2018) 730 000 (2019) 770 000 (2020) 815 000 (2021)	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$ 1,545,000</u>	<u>\$ 8,455,000</u>

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF AMBULANCE DEPARTMENT OPERATING PERFORMANCE
YEARS ENDED JUNE 30, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient service revenue			
Inpatient charges ¹	\$ 103,527	\$ 122,181	\$ 164,744
Outpatient charges ¹	<u>2,779,357</u>	<u>2,602,512</u>	<u>2,326,588</u>
Gross patient charges	2,882,884	2,724,693	2,491,332
Deductions from revenue³	<u>1,709,507</u>	<u>1,431,010</u>	<u>1,311,227</u>
Net patient service revenue	<u>1,173,377</u>	<u>1,293,683</u>	<u>1,180,105</u>
Expenses			
Salaries ¹	1,001,398	962,312	772,902
Benefits ²	148,207	151,853	116,167
Medical supplies ¹	34,829	36,516	30,313
Supplies ¹	12,067	12,012	24,593
Repairs and maintenance ¹	46,906	25,632	34,580
Utilities ¹	8,023	6,381	7,169
Fuel ¹	75,157	49,699	32,066
Rentals ¹	31,290	23,418	14,159
Medical director ¹	8,670	-0-	-0-
Miscellaneous ¹	1,248	4,684	33,109
Depreciation ⁴	122,482	129,067	115,057
Billing, accounting and other support services ⁵	<u>233,081</u>	<u>241,364</u>	<u>222,238</u>
Total expenses	<u>1,723,358</u>	<u>1,642,938</u>	<u>1,402,353</u>
Ambulance department excess revenue (expense)	\$ <u>(549,981)</u>	\$ <u>(349,255)</u>	\$ <u>(222,248)</u>
Capital expenditures	\$ <u>103,702</u>	\$ <u>121,920</u>	\$ <u>228,314</u>

¹ - Charge or expense directly assigned to the ambulance department.

² - Benefits are determined using the ratio of total benefits, including payroll taxes, divided by total salaries times ambulance salaries.

³ - Deductions from revenue are determined using amounts calculated from the Medicare and Medicaid cost reports plus the average percentage for commercial contractual adjustments times ambulance commercial insurance charges.

⁴ - Depreciation is the expense for the equipment and facilities used by the ambulance department.

⁵ - Billing, accounting and other support services amounts are obtained from the Hospital's Medicare and Medicaid cost report using Medicare's principles of reimbursement.



LESTER, MILLER & WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 Bayou Rapides Rd. • Alexandria, LA 71303

Members:

American Institute of CPAs

Society of Louisiana CPAs

Bobby G. Lester, CPA

John S. Wells, CPA

Robert G. Miller, CPA

Paul A. Delaney, CPA

Mary L. Carroll, CPA

Brenda J. Lloyd, CPA

Mailing Address: Post Office Box 8758 • Alexandria, Louisiana 71306-1758 • Telephone (318) 487-1450 • Facsimile (318) 445-1184

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

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the consolidated financial statements of the Natchitoches Parish Hospital Service District and its Affiliates (the "District" or the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2006, 2005, and 2004 and have issued our report thereon dated December 6, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated 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 the District'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.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the consolidated 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, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings.

This report is intended solely for the information and use of management and the office of 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. However, this report is a matter of public record, and its distribution is not limited.

Lester, Miller & Wells

Certified Public Accountants
December 6, 2006



Natchitoches Parish Hospital Service District
Auditors' Comments and Recommendations
For the Twelve Months Ended June 30, 2006

Internal Controls (2005)

1. **Finding:** - Bank reconciliations were not prepared timely; consequently, various adjustments were not posted to the general ledger until the subsequent fiscal year.

Recommendation: - Bank reconciliations should be prepared and reviewed during the month received, with all entries posted in the corresponding month.

Management's Response: - Bank reconciliations and required postings are now being prepared and recorded timely.

Resolution: - This matter has been resolved.

2. **Finding:** - Various account reconciliations contained errors which resulted in misstated balances. It was noted that the reconciliations were not being reviewed by a supervisor.

Recommendation: - We recommend that all account reconciliations be reviewed timely by a supervisor for errors. Any errors should be corrected before posting.

Management's Response: - All reconciliations will be reviewed and signed off by at least one management level position higher than the associate performing the reconciliation.

Resolution: - This matter has been resolved.

Compliance (2005)

1. **Finding:** - For years the District's management asserted and we believed the District qualified as tax exempt under Internal Revenue Service ("IRS") code section 501(c)(3). Recently the District's counsel, while engaged in a project, requested acknowledgement of 501(c)(3) status from the IRS because management was unable to locate its determination letter. The IRS does not have the District listed as a tax exempt organization under IRS code section 501(c)(3), which is required for its 403(b) retirement plan to be a "qualified" plan.

Recommendation: - We recommend working with counsel to contact the IRS and obtain 501(c)(3) status, and retroactively obtain IRS acknowledgement of a compliant plan under IRS code section 403(b) or conversion to a governmental plan under IRS code section 457.

Management's Response: - We have engaged legal counsel to work with the plan administrator to resolve this matter.

Resolution: - This matter has been partially resolved. An application for exemption under Section 501(c)(3) of the United States Internal Revenue Code has been filed and is pending response.

Natchitoches Parish Hospital Service District
Auditors' Comments and Recommendations
For the Twelve Months Ended June 30, 2006

Compliance (2005 - Continued)

2. Finding: - The District commingled its regular monthly board meetings and minutes with the meetings of the Cooperative Endeavor between the District and Christus Healthcare.

Recommendation: - We suggest continuing work with counsel to clarify the record of past meetings and in the future to separate meetings and minutes.

Management's Response: - The recording of minutes and meetings will be separate in the future.

Response: - This matter has been resolved