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HOSPITAL SERVICE DISTRICT NO. 1 OF EAST BATON ROUGE PARISH, LOUISIANA d/b/a LANE REGIONAL MEDICAL CENTER

Zachary, Louisiana

Audited Financial Statements

Years Ended June 30, 2006 and 2005

Contents

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Years Ended June 30, 2006 and 2005

Management's Discussion and Analysis

Our discussion and analysis of the Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by $5,727 or 14.3 percent in 2006, and $3,309 or 9.0 percent in 2005.
- The Hospital reported an operating income in 2006 of $5,103 and in 2005 of $2,711. The operating margin increased by $2,392 in 2006 and increased by $2,617 in 2005.
- Nonoperating revenues in 2006 increased by $26 or 4.4 percent as compared to 2005. Nonoperating revenues in 2005 increased by $149 or 33.2 percent as compared to 2004.
- The Hospital reported cash and cash equivalents at June 30, 2006, of $1,767 and at June 30, 2005 of $904. Cash and cash equivalents increased by $863 or 95.4 percent as compared to 2005.
- Investments that are not considered cash and cash equivalents were $21,441 at June 30, 2006, and $18,709 at June 30, 2005. These investments increased in 2006 by $2,731 or 12.7 percent as compared to 2005.

USING THIS ANNUAL REPORT

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

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

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

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

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's total net assets increased from $40,083 in 2005, to $45,810 in 2006, an increase of $5,727. Between 2004 and 2005, total net assets increased from $36,774 in 2004, to $40,083 in 2005, an increase of $3,309.

Table 1: Assets, Liabilities, and Net Assets

	2006	2005	2004
Assets			
Current assets	**$ 28,653**	$ 22,690	$ 16,959
Noncurrent cash and investments	**750**	3,100	6,350
Capital assets, net	**26,102**	24,962	25,150
Other noncurrent assets	**2,120**	1,948	1,411
Total assets	**57,625**	52,700	49,870
Liabilities			
Long-term debt	**4,545**	5,611	6,684
Current liabilities	**5,862**	5,968	6,412
Long-term capital leases	**1,408**	1,038	-
Total liabilities	**11,815**	12,617	13,096
Net assets			
Invested in capital assets, net of related debt	**18,611**	17,030	17,422
Restricted for debt service	**417**	323	304
Unrestricted	**26,782**	22,730	19,048
Total net assets	**$ 45,810**	$ 40,083	$ 36,774

Management's Discussion and Analysis

There are two significant components to the favorable change in the Hospital's net assets between 2005 and 2006. The first component was the positive cash from operations from 2005 to 2006, which resulted in a $4,052 increase in unrestricted net assets. The second component was, during this year, the Hospital continued replacing certain capital assets which, net of the related debt, increased by $1,581.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2006, the Hospital's net assets increased by $5,727; in 2005 and 2004, the Hospital's net assets increased by $3,309 and $355, respectively. The change in net assets is due to various components and represents an increase of 14.3 percent compared to the total net assets at June 30, 2005. Between June 30, 2005 and June 30, 2004, net assets increased by 9.0 percent.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating revenues			
Patient service revenue	$ 47,420	$ 41,373	$ 36,223
Other operating revenues	368	362	377
Total operating revenues	47,788	41,735	36,600
Operating expenses			
Salaries and benefits	24,444	22,239	20,758
Medical supplies and drugs	5,533	5,139	4,325
Depreciation and amortization	2,809	2,813	2,744
Other operating expenses	9,899	8,833	8,867
Total operating expenses	42,685	39,024	36,694
Operating income (loss)	5,103	2,711	(94)
Nonoperating revenue (expenses)			
Investment income	410	484	320
Interest expense	(314)	(238)	(173)
Other nonoperating revenue	528	352	302
Net nonoperating revenue	624	598	449
Increase in net assets	5,727	3,309	355
Net assets at end of year	$ 45,810	$ 40,083	$ 36,774

Operating Income

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

Operating income is generally the difference between net patient service revenues and the expenses incurred to deliver those services to patients. The 2006 operating income was $5,103; this is an improvement of $2,392 or 88.2 percent from the operating income of $2,711 reported in 2005. The primary components of this change in reported operating income for 2006 were:

- An increase in net patient service revenues of $6,047 or 14.6 percent between 2005 and 2006. This increase is attributable to an upturn in patient volumes due to several physicians joining the medical staff in 2005.
- Operating expenses increased by only $3,661 or 9.4 percent between 2005 and 2006. The Hospital maintained the balance between staffing, productivity, wages, supply usage and supply cost with net revenues.

Nonoperating Revenues and Expenses

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

The $26 increase in nonoperating revenues and expenses between 2005 and 2006, is due to an increase in investment income, an increase in interest expense paid on long-term debt and increased rental income from the medical office buildings. Nonoperating revenues and expenses increased by $149 between 2004 and 2005, primarily due to an increase in investment income.

CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses. Cash flows provided by operating activities exceed cash flows used by capital and related financing activities and cash flows used in investing activities, in 2006.

Cash and Cash Equivalents

The Hospital reported cash and cash equivalents at June 30, 2006, of $1,767 and at June 30, 2005, of $904. Cash and cash equivalents increased in 2006, by $863 or 95.4 percent as compared to 2005. Cash and cash equivalents increased in 2005, by $1,289 or 58.8 percent, as compared to 2004.

Investments

Investments that are not considered cash and cash equivalents were $21,441 at June 30, 2006, and $18,709 at June 30, 2005. These investments increased in 2006, by $2,731 or 14.6 percent, as compared to 2005, and increased in 2005, by $5,741 or 44.3 percent, as compared to 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the Hospital had $26,102 invested in capital assets, net of accumulated depreciation, as detailed in Note 3 to the financial statements. In 2006, the Hospital acquired new equipment with a cost of $1,922. The Hospital leases certain equipment at favorable tax exempt rates, as detailed in Note 5 to the financial statements. This allows the Hospital to provide for capital replacement, while at the same time preserving its cash and investments for deployment in other strategic pursuits.

Debt

At June 30, 2006, the Hospital had $5,649 in revenue and refunding bonds outstanding, which is detailed in Note 4 to the financial statements. No new debt was issued in 2006 or 2005. The Hospital's formal debt issuances cannot be issued without approval of the Louisiana Bond Commission. Debt issuances reviewed by the Bond Commission are limited, primarily to the debt capacity of the Hospital and secondarily to the debt capacity of the City-Parish of Baton Rouge. (See Note 1 to the financial statements.) The Hospital exceeded its required debt service targets for fiscal years 2006 and 2005.

OTHER ECONOMIC FACTORS

In 2006, the Hospital continued to pursue a strategic direction initiated in late fiscal year 2003. In 2006, the Hospital realized the full benefit of the changes implemented since 2003; the Hospital's finances have been stabilized, operations greatly improved, new physicians were recruited to the community, clinical equipment was updated, and services were expanded.

CONTACTING THE SERVICE DISTRICT HOSPITAL'S FINANCIAL MANAGEMENT

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

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

We have audited the accompanying balance sheets of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center, as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audits.

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

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, Louisiana
August 4, 2006

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Balance Sheets
June 30, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 1,766,595	$ 904,008
Certificates of deposit	6,350,000	1,500,000
Short-term investments	14,003,593	13,786,469
Investments held by trustee for debt service	336,996	322,836
Patient accounts receivable, net of allowances for doubtful accounts of $2,274,321 in 2006, and $1,616,430 in 2005	5,258,882	5,274,005
Inventories	508,168	425,446
Other current assets	428,618	477,679
Total current assets	28,652,852	22,690,443
Noncurrent certificates of deposit	750,000	3,100,000
Capital assets, net	26,102,077	24,962,353
Other assets	2,120,481	1,947,080
Total assets	$ 57,625,410	$ 52,699,876
Liabilities and net assets		
Current liabilities		
Current maturities of long-term debt	$ 1,103,646	$ 1,073,646
Current maturities of capital lease obligations	434,303	209,856
Accounts payable	1,347,328	1,139,387
Accrued salaries and wages	368,342	995,894
Accrued compensated absences	1,064,335	829,157
Accrued payroll withholdings	60,666	-
Estimated third-party payor settlements	900,000	1,199,223
Other current liabilities	583,749	521,307
Total current liabilities	5,862,369	5,968,470
Long-term debt, less current maturities	4,545,264	5,610,690
Long-term capital leases obigations, less current maturities	1,407,748	1,037,704
Total liabilities	11,815,381	12,616,864
Net assets		
Invested in capital assets net of related debt	18,611,116	17,030,457
Restricted for debt service	336,996	322,836
Unrestricted	26,861,917	22,729,719
Total net assets	45,810,029	40,083,012
Total liabilities and net assets	$ 57,625,410	$ 52,699,876

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues		
Net patient service revenue, net of provision for bad debts of $4,627,751 in 2006, and $3,774,000 in 2005	$ 47,419,947	$ 41,372,909
Other operating revenue (net of expenses)	367,691	362,284
Total operating revenues	47,787,638	41,735,193
Operating expenses		
Salaries	21,254,495	18,688,283
Fringe benefits	3,189,568	3,551,172
Nonmedical supplies	1,197,931	1,136,162
Medical supplies	5,532,892	5,139,149
Professional fees	1,137,218	883,519
Contracted services	3,519,522	3,377,509
Utilities	1,271,427	821,809
Repairs and maintenance	866,568	668,084
Insurance	954,453	1,137,796
Depreciation and amortization	2,808,696	2,813,011
Other	951,888	807,632
Total operating expenses	42,684,658	39,024,126
Operating income	5,102,980	2,711,067
Nonoperating revenue (expenses)		
Investment income	410,007	484,281
Interest expense	(314,168)	(237,878)
Other nonoperating revenue	528,198	351,860
Net nonoperating revenue	624,037	598,263
Changes in net assets	5,727,017	3,309,330
Net assets, beginning of year	40,083,012	36,773,682
Net assets, end of year	$ 45,810,029	$ 40,083,012

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Receipts from and on behalf of patients	**$47,059,848**	$ 42,883,957
Payments to suppliers and contractors	**(15,348,859)**	(14,549,710)
Payments to employees	**(25,288,549)**	(23,041,443)
Other receipts and payments, net	**394,305**	397,701
Net cash provided by operating activities	**6,816,745**	5,690,505
Cash flows from noncapital financing activities		
Other nonoperating revenues	**528,198**	351,860
Cash flows from capital and related financing activities		
Principal paid on capital leases	**(305,229)**	(71,383)
Principal paid on long-term debt	**(1,035,426)**	(1,043,646)
Interest paid on long-term debt	**(314,168)**	(237,878)
Proceeds from capital leases	**-**	-
Purchase of capital assets	**(2,506,256)**	(633,497)
Net cash used in capital and related financing activities	**(4,161,079)**	(1,986,404)
Cash flows from investing activities		
Interest and dividends on investments	**410,007**	484,281
Purchase of investments	**(4,671,695)**	(14,426,972)
Proceeds from sale of investments	**1,940,411**	8,598,099
Net cash used in investing activities	**(2,321,277)**	(5,344,592)
Increase (decrease) in cash and cash equivalents	**862,587**	(1,288,631)
Cash and cash equivalents, beginning of year	**904,008**	2,192,639
Cash and cash equivalents, end of year	**$ 1,766,595**	$ 904,008

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

	2006	2005
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 5,102,980**	$ 2,711,607
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	**2,808,696**	2,813,011
Loss on disposal of property and equipment	**20,659**	88,371
Provision for bad debts	**4,627,751**	3,774,000
Changes in		
Patient accounts receivable	**(4,612,628)**	(1,757,655)
Inventories and other current assets	**(33,661)**	18,398
Other assets	**(736,504)**	(1,208,835)
Accounts payable and other current payables	**207,941**	24,958
Accrued expenses and payroll withholdings	**(269,266)**	(254,750)
Estimated third-party payor settlements	**(299,223)**	(518,600)
Net cash provided by operating activities	**$ 6,816,745**	$ 5,690,505
Schedule of noncash investing, capital and financing activities		
Purchase of capital assets included in capital leases	**$ 899,720**	$ 1,318,943

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

Nature of Operations

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

Financial Reporting Entity

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

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

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

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

Basis of Accounting

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

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

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

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

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

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

Investments Held by Trustees
The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

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

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

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

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

Capital Assets

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

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

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

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

Net Assets

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

Operating Revenues and Expenses

The Hospital's Statements of Revenues, Expenses and Changes in Net Assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future period as final settlements are determined. See Note 9.

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

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

Note 2. Deposits and Investments

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

The Hospital has various deposits and investments. The amounts reflected on the accompanying balance sheets are as follows:

	2006	2005
Cash and cash equivalents	$ 1,766,595	$ 904,008
Short-term investments	14,003,593	13,786,469
Investments held by trustee for debt service	336,996	322,836
Current certificates of deposit	6,350,000	1,500,000
Noncurrent certificates of deposits	750,000	3,100,000
Total	$ 23,207,184	$ 19,613,313

The Hospital's balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

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

Note 3. Capital Assets

Capital asset additions, retirement, and balances for the years ended June 30, 2006 and 2005, are as follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets, not being depreciated:				
Land and land improvements	$ 1,618,307	$ 182,428	$ -	$ 1,800,735
Construction in progress	50,367	1,301,661	-	1,352,028
Total capital assets, not being depreciated	1,668,674	1,484,089	-	3,152,763
Capital assets, being depreciated:				
Buildings	26,607,697	406,319		27,014,016
Fixed equipment	3,715,912			3,715,912
Movable and other equipment	20,734,741	1,505,868	576,144	21,664,465
Physicians' office building and equipment	3,071,152	9,700		3,080,852
Total capital assets, being depreciated	54,129,502	1,921,887	576,144	55,475,245
Less accumulated depreciation for:				
Land improvements	195,196	782		195,978
Buildings	10,674,325	615,591		11,289,916
Fixed equipment	3,477,140	126,615		3,603,755
Movable and other equipment	15,399,278	1,391,783	555,485	16,235,576
Physicians' office building and equipment	1,089,884	110,822		1,200,706
Total accumulated depreciation	30,835,823	2,245,593	555,485	32,525,931
Total capital assets, being depreciated, net	$ 24,962,353	$ 1,160,383	$ 20,659	$ 26,102,077

Note 3. Capital Assets (Continued)

Capital asset additions, retirement, and balances for the years ended June 30, 2005 and 2004, are as follows:

	June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets, not being depreciated:				
Land and land improvements	$ 1,618,307	$ -	$ -	$ 1,618,307
Construction in progress	-	50,367	-	50,367
Total capital assets, not being depreciated	1,618,307	50,367	-	1,668,674
Capital assets, being depreciated:				
Buildings	26,410,194	197,503		26,607,697
Fixed equipment	3,715,912			3,715,912
Movable and other equipment	19,287,756	1,622,444	175,459	20,734,741
Physicians' office building and equipment	3,101,637	82,126	112,611	3,071,152
Total capital assets, being depreciated	52,515,499	1,902,073	288,070	54,129,502
Less accumulated depreciation for:				
Land improvements	194,175	1,021		195,196
Buildings	10,053,299	621,026		10,674,325
Fixed equipment	3,381,226	95,914		3,477,140
Movable and other equipment	14,310,398	1,223,279	134,399	15,399,278
Physicians' office building and equipment	1,044,932	110,252	65,300	1,089,884
Total accumulated depreciation	28,984,030	2,051,492	199,699	30,835,823
Total capital assets, being depreciated, net	$ 25,149,776	$ (99,052)	$ 88,371	$ 24,962,353

Notes to Financial Statements

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2006 and 2005 follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds payable					
Series 1996	$ 4,200,000	$ -	$ 615,000	$ 3,585,000	$ 645,000
Series 2000	1,857,143	-	314,286	1,542,857	342,857
Series 2001	627,193	-	106,140	521,053	115,789
Total long-term debt	$ 6,684,336	$ -	$ 1,035,426	$ 5,648,910	$ 1,103,646

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
Bonds payable					
Series 1996	$ 4,785,000	$ -	$ 585,000	$ 4,200,000	$ 615,000
Series 2000	2,200,000	-	342,857	1,857,143	342,857
Series 2001	742,983	-	115,790	627,193	115,789
Total long-term debt	$ 7,727,983	$ -	$ 1,043,647	$ 6,684,336	$ 1,073,646

Long-Term Debt

The terms and due dates of the Hospital's long-term debt at June 30, 2006 and 2005, follows:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65 percent of LIBOR, plus 1.6 percent, due in monthly installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2000), variable interest rates on the Bond established weekly in accordance with Section 2.05(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates on the Bond established weekly in accordance with Section 2.05(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.

As part of the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the year ended June 30, 2006.

Note 4. Long-Term Debt (Continued)

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

Year Ending June 30,	Long-Term Debt Principal	Long-Term Debt Interest
2007	$ 1,103,646	$ 301,022
2008	1,138,646	240,003
2009	1,173,646	176,755
2010	1,213,646	111,240
2011	1,019,326	46,968
	$ 5,648,910	$ 875,988

Note 5. Capital Leases

The Hospital is the lessee of equipment under capital leases expiring in various years through 2012. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2006.

Depreciation on assets under capital leases charged to expense in 2006 and 2005, is $366,728 and $83,534, respectively.

Following is a summary of property held under capital leases:

	2006	2005
Equipment	$ 2,218,663	$ 1,318,943
Less: Accumulated Depreciation	(450,262)	(83,534)
	$ 1,768,401	$ 1,235,409

Note 5. Capital Leases (Continued)

A schedule of changes in the Hospital's capital leases for 2006 and 2005 follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Capital lease					
Leased Equipment Rider #1	$ 102,131	$ -	$ 28,457	$ 73,674	$ 29,623
Leased Equipment Rider #2	263,238	-	69,243	193,995	72,431
Leased Equipment Rider #3	882,191	-	112,879	769,312	118,595
Leased Equipment Rider #4	-	335,559	51,736	283,823	80,634
Leased Equipment Rider #5	-	564,161	42,914	521,247	133,020
Total capital lease obligation	$ 1,247,560	$ 899,720	$ 305,229	$ 1,842,051	$ 434,303

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #1	-	118,211	16,080	102,131	28,456
Leased Equipment Rider #2	-	291,182	27,944	263,238	68,984
Leased Equipment Rider #3	-	909,550	27,359	882,191	112,416
Total capital lease obligation	$ -	1,318,943	$ 71,383	1,247,560	$ 209,856

Minimum future lease payments under capital leases as of June 30, 2006, for each of the next five years and in the aggregate are:

Year Ending June 30,	Capital Lease Principal	Capital Lease Interest
2007	$ 434,303	$ 78,596
2008	455,311	57,040
2009	425,002	36,452
2010	269,769	17,642
2011 to 2012	257,666	11,852
	$ 1,842,051	$ 201,582

Note 6. Insurance Programs

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured with respect to employee health and dental benefits.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000. The Hospital is self-insured for costs up to $100,000 per claim.

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

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

The claims liabilities at June 30, 2006 and 2005, are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	2006	2005
Claims liability, beginning of year	**$ 485,010**	$ 327,423
Current year claims and changes in estimates	**2,131,531**	2,116,030
Current year claims payments	**(1,988,858)**	(1,958,443)
Claims liability, end of year	**$ 627,683**	$ 485,010

Note 7. Pension Plan

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

Note 7. Pension Plan (Continued)

Plan Description

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

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

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

Funding Policy

Participants are required to contribute one percent (1%) of their monthly earnings up to $400, plus two percent (2%) of their monthly earnings in excess of $400. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

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

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in February 2006, for the Plan year ending June 30, 2006, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Note 7. Pension Plan (Continued)

Funding Status (Continued)

Assumptions used in accounting for the net periodic pension cost as of June 30, 2006, 2005 and 2004, were as follows:

	2006	2005	2004
Discount rates	**8.00%**	7.00%	7.00%
Rates of increase in compensation levels	**3.00%**	3.00%	3.00%
Expected long-term rate of return on assets	**7.00%**	7.00%	7.00%

Based on the latest actuarial valuation in February 2006, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2005, 2004 and 2003:

	July 1, 2005	July1, 2004	July 1, 2003
Actuarial value of Plan assets	$ 13,746,606	$ 12,583,308	$ 11,622,354
Actuarial accrued liability	$ 13,995,319	$ 12,822,795	$ 12,582,740
Funded deficiency	$ (248,713)	$ (239,487)	$ (960,386)
Funded ratio	98.2%	98.1%	92.4%
Annual covered payroll	$ 7,057,141	$ 7,295,040	$ 10,670,576
Funded deficiency as a percentage of annual covered payroll	(3.52%)	(3.28%)	(9.0%)

The Hospital had an annual required contribution of $139,947 and $108,143, for the years ended June 30, 2006 and 2005, respectively.

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

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual required contribution	$ 139,947
Interest on net pension obligation	-
Adjustment to annual required contribution	
Annual pension cost	
Contributions made	($243,000)
Decrease in net pension obligation	($103,053)
Net pension obligation, beginning of year	
Net pension obligation, end of year	$ -

Note 8. Business and Credit Concentrations

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

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

The mix of net receivables from patients and third-party payors at June 30, 2006 and 2005, is as follows:

	2006	2005
Medicare	39%	45%
Medicaid	9	7
Commercial insurance companies, health maintenance organizations, and other	44	43
Self-pay patients	8	5
	100%	100%

Note 9. Net Patient Service Revenue and Accounts Receivable

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

Medicare

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

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor will limit potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Note 9. Net Patient Service Revenue and Accounts Receivable (Continued)

Medicare (Continued)
Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof, by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2002.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 16 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2006, and 42 percent and 16 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2005. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2006 net patient revenue increased by approximately $207,548 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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

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

	2006	2005
Medicare	29%	41%
Medicaid	8	9
Commercial insurance companies, health maintenance organizations, and other	46	35
Self-pay patients	17	15
	100%	100%

Note 10. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2006 and 2005, consists of the following:

	2006	2005
Physician revenues	**$ 1,331,379**	$ 2,583,866
Cafeteria revenues	**300,707**	264,314
Other	**236,552**	138,981
Total other operating revenues	**1,868,638**	2,987,161
Less related expenses:	**(1,500,948)**	(2,624,877)
Net other operating revenue	**$ 367,690**	$ 362,284

Note 11. Commitments and Contingencies

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

Note 12. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

As of June 30, 2006, the Governmental Accounting Standards Board has issued several statements not yet implemented by the Hospital. The statements, which might impact the Hospital, are as follows:

> Governmental Accounting Standards Board Statement No. 42 (GASB 42)
>
> The Hospital will adopt the provision of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* during fiscal year 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service usage has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. Management has not evaluated the effect of the adoption of this Statement on the financial statements.

Note 12. Recent Reporting and Disclosure Developments (Continued)

Governmental Accounting Standards Board Statement No. 43 (GASB 43)
The Hospital will adopt GASB 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, during fiscal year 2007. In addition to pensions, many state and local governmental employers provide other post employment benefits (OPEB) as part of the total compensation offered to attract and retain services of qualified employees. OPEB includes post employment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan.

The standards in this statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plan or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for: reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. Management has not evaluated the effect of adoption of this Statement on the financial statements.

Governmental Accounting Standards Board Statement No. 45 (GASB 45)
The Hospital will adopt GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, during fiscal year 2009. This statement addresses how state and local governments should account for and report costs and obligations related to post employment benefits (OPEB). Management has not evaluated the effect of adopting this statement.

Governmental Accounting Standards Board Statement No. 47 (GASB 47)
The Hospital will adopt GASB 47, *Accounting for Termination Benefits*, during fiscal year 2009. This statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated.

LaPorte Sehrt
Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report
on Supplementary Information**

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

Our audit was made for the purpose of forming an opinion on the basic financial statements for the years ended June 30, 2006 and 2005, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended June 30, 2006 and 2005, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, Louisiana
August 4, 2006

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HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Schedule of Board of Commissioners and Salaries
Years Ended June 30, 2006 and 2005

	2006	2005
Jerry Boudreaux	$ 275	$ 275
Robert Williams, Jr.	200	200
Howard Martin, M.D.	250	125
Richard Sessions	275	275
Judy Myles	200	225
Patricia D. Gauthier	250	250
James Carroll	225	250
Dell Guerra	275	250
Jimmy Jackson	50	-
William King	200	250
	$ 2,200	$ 2,100

LaPorte Sehrt Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2006-1.

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

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, Louisiana
August 4, 2006

HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Current Year Audit Findings
For the Year Ended June 30, 2006

COMPLIANCE WITH LAWS AND REGULATIONS
Finding 2006-1

Condition: The Hospital was unable to file its annual audit in accordance with LSA-RS 24:514, 33:463, and/or 39:92.

Recommendation: The primary cause of the untimely filing was the fact that the independent auditor did not electronically submit the report prior to December 31, 2006, as understood by the Hospital. The audit was presented by the independent auditor before the Hospital's Finance Committee and accepted by that Committee in October 2006.

Current Status: The audit reports are being filed as requested by the Legislative Auditor's office.

Management's Response: It is understood that it is the joint responsibility of the auditor and auditee to ensure the timely release of the report. The auditor and management have agreed that the e mail notification received by the auditor from the Legislative Auditor upon successful transmission of the audit report will be forwarded to the auditee to ensure timely filing.