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RICHARDSON MEDICAL CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
SEPTEMBER 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 4/25/07

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER AND AFFILIATE
 HOSPITAL ENTERPRISE FUND
 YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

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Richland Parish Hospital Service District No 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

This section of the annual financial report for Richland Parish Hospital Service District No. 1B d/b/a Richardson Medical Center (the Medical Center) provides background information and management's analysis of the Medical Center's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the financial statements beginning on page 3 and the notes to the financial statements beginning on page 7 in this report.

Required Financial Statements

The financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements provide overall information about the Medical Center's financial activities on both a short-term and long-term basis. The balance sheets present information about its assets (resources) and liabilities (the amounts obligated to its creditors). The statements of revenues, expenses, and changes in net assets present information about the current and prior years' activities in revenues and expenses. This statement also provides useful information for determining whether the Medical Center's patient service revenue and other revenue sources were sufficient to allow the Medical Center to recover all of its costs. The final required financial statement is the statement of cash flows which provides information about the Medical Center's cash from operations, investing, and financing activities. In addition, this statement provides useful information to answer questions such 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 Medical Center

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Medical Center's activities. These two statements report the net assets of the Medical Center and changes in them. Increases or decreases in the Medical Center's net assets are one of a number of indicators of whether its overall 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.

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Net Assets

A summary of the Medical Center's balance sheets is presented in Table 1 below:

TABLE 1
Condensed Balance Sheets
(in thousands)

	September 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total current assets	\$ 2,562	\$ 3,253	\$ 3,464	\$ 3,538
Capital assets - net	3,890	2,525	2,402	1,889
Board designated investments	1,195	1,380	2,420	3,434
Other assets	<u>41</u>	<u>43</u>	<u>162</u>	<u>42</u>
 Total assets	 \$ <u>7,688</u>	 \$ <u>7,201</u>	 \$ <u>8,448</u>	 \$ <u>8,903</u>
 Current liabilities	 \$ 3,678	 \$ 1,973	 \$ 1,923	 \$ 1,074
Long-term liabilities	<u>441</u>	<u>528</u>	<u>439</u>	<u>128</u>
 Total liabilities	 4,119	 2,501	 2,362	 1,202
 Net assets	 <u>3,569</u>	 <u>4,702</u>	 <u>6,086</u>	 <u>7,701</u>
 Total liabilities and net assets	 \$ <u><u>7,688</u></u>	 \$ <u><u>7,203</u></u>	 \$ <u><u>8,448</u></u>	 \$ <u><u>8,903</u></u>

As shown in Table 1, the Medical Center's total assets increased by approximately \$487,000 or 6.8% from fiscal year 2005 to 2006, compared to a decrease of approximately \$1,245,000 or 14.7% from fiscal year 2004 to 2005, and \$455,000 or 5.1% from fiscal year 2003 to 2004. The Medical Center's capital assets increased by approximately \$1,365,000 or 54.1% from fiscal year 2005 to 2006, \$125,000 or 5.2% from fiscal year 2004 to 2005, and \$512,000 or 27.1% from fiscal year 2003 to 2004. The Medical Center's major addition was the renovation and addition of the Richland MRI Open. Board designated investments decreased by approximately \$185,000 or 13.4% from fiscal year 2005 to 2006, \$1,040,000 or 43.0% from fiscal year 2004 to 2005, and \$1,014,000 or 29.5% from fiscal year 2003 to 2004. The withdrawals for investment were used to purchase capital assets and pay note payments on existing debt. Total liabilities increased by approximately \$1,618,000 or 64.7% from fiscal year 2005 to 2006, \$139,000 or 5.9% from fiscal year 2004 to 2005 and \$1,160,000 or 96.5% from fiscal year 2003 to 2004.

Richland Parish Hospital Service District No 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Medical Center's historical revenue and expenses for each of the fiscal years ended September 30:

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenue:				
Net patient service revenue	\$ 13,028	\$ 12,478	\$ 12,302	\$ 11,906
Other revenue	<u>617</u>	<u>509</u>	<u>425</u>	<u>415</u>
 Total operating revenue	 <u>13,645</u>	 <u>12,987</u>	 <u>12,727</u>	 <u>12,321</u>
Operating expenses:				
Salaries and employee benefits	7,287	7,033	7,233	6,457
Supplies, fees, and purchased services	3,283	3,134	3,164	2,657
Other expenses	3,752	3,701	3,522	3,234
Depreciation and amortization	<u>483</u>	<u>505</u>	<u>431</u>	<u>428</u>
 Total operating expenses	 <u>14,805</u>	 <u>14,373</u>	 <u>14,350</u>	 <u>12,776</u>
 Loss from operations	 (1,160)	 (1,386)	 (1,623)	 (455)
Interest income and expense, net	<u>27</u>	<u>2</u>	<u>8</u>	<u>55</u>
 Excess of revenue over expenses	 (1,133)	 (1,384)	 (1,615)	 (400)
Net assets - beginning of year	<u>4,702</u>	<u>6,086</u>	<u>7,701</u>	<u>8,101</u>
 Net assets - end of year	 \$ <u>3,569</u>	 \$ <u>4,702</u>	 \$ <u>6,086</u>	 \$ <u>7,701</u>

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Source of Revenue

Net Patient Revenue

During fiscal year 2006, the Medical Center derived the majority, or approximately 96%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or patients with other third-party coverage, who receive care in the Medical Center's facilities. Reimbursement from the Medicare and Medicaid programs and other third-party payors is based upon established contracts. The difference between the covered charges and the established contract rates is recognized as a contractual allowance. Total net patient service revenue increased by approximately \$550,000 or 4.4% in fiscal year 2005 to 2006, \$176,000 or 1.4% in fiscal year 2005, and \$396,000 or 3.3% in fiscal year 2004.

During fiscal year 2006, Medicare inpatient reimbursement increased due to legislative changes in the calculation of the Medicare DSH and DRG. These increases accounted for \$185,000 of the increase in net patient service revenue.

Table 3 presents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30:

TABLE 3
Payor Mix by Percentage

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	54%	56%	59%	58%
Medicaid	23%	23%	19%	17%
Commercial insurance	16%	15%	17%	20%
Self-pay	<u>7%</u>	<u>6%</u>	<u>5%</u>	<u>5%</u>
Total patient revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Other Revenue

Other revenue (Table 4) includes Richland Parish property taxes, cafeteria sales, rental income, pharmacy sales to employees, and other miscellaneous services.

TABLE 4
Other Revenue
(in thousands)

	Years Ended September 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other revenue:				
Property tax	\$ 309	\$ 278	\$ 258	\$ 257
Cafeteria	39	34	34	41
Medical records	1	1	2	4
Vending machines	8	9	9	9
Rentals	46	76	40	39
Pharmacy sales to employees	38	39	40	43
Grants	23	-0-	25	12
Joint venture income	96	37	14	2
Miscellaneous	<u>57</u>	<u>35</u>	<u>3</u>	<u>8</u>
 Total other revenue	 \$ <u>617</u>	 \$ <u>509</u>	 \$ <u>425</u>	 \$ <u>415</u>

Rental Income

The rental income for fiscal year 2006 decreased by 40% or \$30,000 to \$46,000, compared to an increase from fiscal year 2004 to 2005 of 90% or \$36,000. The rental income for fiscal years 2004 and 2003 were approximately the same. The increase during fiscal year 2005 is due to new leases entered into during the year.

Miscellaneous Income

Miscellaneous income increased by 63% or \$22,000 from fiscal year 2005 to 2006, following a drastic increase of 106% or \$32,000 during fiscal year 2005. In fiscal years 2006 and 2005, the Hospital received a refund from the Rural Hospital Coalition of \$59,733 and \$32,479, respectively. In fiscal year 2004 and 2003, the Hospital had not received a refund from the Rural Hospital Coalition.

Investment Income

The Medical Center holds designated and restricted funds in its balance sheets that are invested in certificates of deposit. These investments earned \$63,725 in interest income during fiscal year 2006. This doubled from fiscal year 2005

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Operating and Financial Performance

The following financial information summarizes the Medical Center's statements of revenue, expenses, and changes in net assets for 2005 through 2003:

Overall activity at the Medical Center, as measured by patient discharges, decreased by 157 from fiscal year 2005 to 2006, increased by 152 from fiscal year 2004 to 2005, and remained the same from fiscal year 2003 to 2004. Patient days decreased 9.3% in fiscal year 2006 and increased 7.8% in fiscal year 2005.

TABLE 5
Patient and Hospital Statistical Data

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year Ended September 30,				
Discharges:				
Acute care	1,366	1,525	1,393	1,401
Swing bed	85	85	79	79
Psychiatric care	112	110	96	88
Patient days:				
Medicare	4,294	4,733	4,568	4,641
Medicaid	674	818	493	764
Commercial	716	731	664	702
Self pay	124	426	222	67
Swing bed	896	851	844	684
Psychiatric care	970	901	1,054	965
Operating room patients	830	826	842	901
Emergency room visits	7,057	7,070	7,100	7,636
Average daily census:				
Adult and pediatric	15.9	18.4	16.3	16.9
Swing bed	2.5	2.3	2.3	1.9
Psychiatric care	2.7	2.5	2.9	2.6
Average length of stay:				
Acute care	3.1	3.1	3.3	4.4
Swing bed	10.5	10.0	10.7	8.7
Psychiatric care	8.7	8.2	11.0	11.0
Percentage of total acute patient days:				
Medicare	74%	71%	77%	75%
Medicaid	12%	12%	8%	12%
Rural health clinic visits	24,182	19,123	17,609	16,187
Full-time equivalents (FTEs)	184.4	187.7	185.4	197.9

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Allowances decreased over prior year as described in Table 6 below:

TABLE 6
Allowance Summary
(in thousands)

	<u>2006</u>	September 30, <u>2005</u>	<u>2004</u>
Allowances:			
Other adjustments	\$ 1,156	\$ 886	\$ 903
Medicaid contractual allowances	2,675	2,055	2,122
Medicare contractual allowances	4,013	5,590	6,761
Uncompensated care reimbursement	(1,287)	(797)	(828)
Discounts	34	38	8
Provision for bad debts	<u>2,245</u>	<u>1,983</u>	<u>1,923</u>
 Total adjustments and allowances	 \$ <u>8,836</u>	 \$ <u>9,755</u>	 \$ <u>10,889</u>

Medicare contractual allowances decreased from fiscal year 2005 to 2006 by 28% or approximately \$1,577,000. This decrease is attributable to several factors. The Medicare gross charges decreased by approximately \$825,000 or 6.9%. The Medicare acute inpatient payments increased approximately \$240,000 from the previous year. Also, during fiscal year 2004 several claims were denied due to timely filing requirements. In fiscal year 2005, filing claims timely has improved, thereby reducing the amount of Medicare write-offs.

Salaries increased \$256,885 or 4.4% in fiscal year 2006 as compared to a decreased \$327,266 or 5.3% in 2005. As a percentage of net patient service revenue, salary expense was approximately 46.8%, 46.8%, and 50.1%, for the fiscal years ended September 30, 2006, and 2005 and 2004, respectively.

Employee benefits expense decreased \$3,014 or .3% in 2006 from the prior year. Employee benefit expenses represented 19.6%, 20.5%, and 17.7% of salary expenses in the current and prior two fiscal years, respectively. This increase is primarily due to an increase in health insurance costs.

Supplies expense decreased \$80,262 or 10.2% in fiscal year from 2005 to 2006, and \$18,726 or 2.3% from 2004 to 2005.

Professional fees increased by approximately \$230,000 or 9.8% during the fiscal year from 2005 to 2006 compared to remaining approximately the same during the two prior fiscal years.

Other operating expenses decreased \$7,808 or .2% in fiscal year 2006 compared to an increase of \$186,737 or 6.0% from 2004 to 2005.

Total overall operating expenses for 2006 increased by approximately \$432,000 or 3% during fiscal year 2006 compared to remaining the same during the two prior fiscal years.

Richland Parish Hospital Service District No 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Capital Assets

During the 2006 fiscal year, the Medical Center invested \$968,275 in a broad range of capital assets included in Table 7 below:

TABLE 7
Capital Assets
(in thousands)

	Year Ended September 30,		Dollar Change	Percentage Change
	2006	2005		
Land and improvements	\$ 45	\$ 45	\$ -0-	0.0%
Building and equipment	12,870	10,989	1,881	17.1%
Subtotal	12,915	11,034	1,881	17.0%
Less accumulated depreciation	9,026	8,554	472	5.5%
Construction in progress	-0-	46	(46)	-100.0%
 Net	 \$ 3,889	 \$ 2,526	 \$ 1,363	 54.0%

Net property, plant and equipment have increased as the Medical Center has enhanced existing facilities, equipment, and is in the process of renovating the rural health clinic to accommodate patient services.

2005 Capital Budget

In Table 8, the Medical Center's fiscal year 2005 capital budget projects spending up to \$558,000 for capital projects. The equipment purchases will be financed from property tax revenues and operations. More information about the Medical Center's capital assets is presented in the notes to the basic financial statements.

TABLE 8
Fiscal Year 2007 Capital Budget

Equipment purchases	\$ 182,175
Building / Building Improvements	120,000
 Total	 \$ 302,175

Long-Term Debt (Excluding Capital Leases)

At year end, the Medical Center had \$1,677,243 in short-term and long-term debt.

Richland Parish Hospital Service District No. 1B
d/b/a Richardson Medical Center

Management's Discussion and Analysis

Contacting the Medical Center's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Medical Center's finances and to demonstrate the Medical Center'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

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Independent Auditors' Report

To the Board of Commissioners
Hospital Service District No. 1B
Parish of Richland, State of Louisiana
Rayville, Louisiana

We have audited the accompanying consolidated financial statements of Hospital Service District No. 1B, Parish of Richland (the Hospital) and its affiliate, a component unit of the Richland Parish Police Jury, as of and for the years ended September 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 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 Hospital Service District No. 1B, Parish of Richland, as of September 30, 2006, 2005, and 2004, and the results of its operations and 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 March 29, 2007, 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 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 audit.

Our audits were performed for the purpose of forming an opinion on the 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 the auditing procedures applied 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
Hospital Service District No. 1B
Parish of Richland, State of Louisiana
Rayville, Louisiana
Page Two

Management's discussion and analysis on pages "i" through "ix" is not a required part of the consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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
March 29, 2007



HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER AND AFFILIATE
 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30,

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current			
Cash and cash equivalents (Note 2 & 3)	\$ 110,653	\$ 137,310	\$ 30,739
Short-term investments	-0-	-0-	150,851
Limited use assets (Note 6)	544,784	-0-	-0-
Accounts receivable, net (Note 4)	1,792,143	2,285,966	2,731,199
Estimated third-party payor settlements	175,565	415,781	176,647
Accrued interest	7,720	-0-	-0-
Inventory	339,274	338,445	294,846
Prepaid expenses	<u>136,799</u>	<u>75,938</u>	<u>80,158</u>
Total Current Assets	3,106,938	3,253,440	3,464,440
Property, plant, and equipment, net (Note 5)	3,889,527	2,525,489	2,401,752
Limited use assets (Note 6)	649,959	1,380,293	2,420,410
Start-up cost, net	-0-	-0-	111,339
Other assets (Note 7)	<u>41,346</u>	<u>43,439</u>	<u>50,810</u>
Total Assets	\$ <u>7,687,770</u>	\$ <u>7,202,661</u>	\$ <u>8,448,751</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current			
Cash overdraft	\$ -0-	\$ -0-	\$ 55,582
Accounts payable	1,920,382	1,370,341	1,281,059
Accrued expenses	521,119	489,433	414,739
Current portion of long-term debt (Note 8)	<u>1,236,375</u>	<u>113,253</u>	<u>172,209</u>
Total Current Liabilities	3,677,876	1,973,027	1,923,589
Long-term			
Capital lease obligations and notes payable (Note 8)	<u>440,868</u>	<u>527,647</u>	<u>439,158</u>
Total Liabilities	4,118,744	2,500,674	2,362,747
Net Assets			
Restricted	544,784	-0-	-0-
Invested in capital assets, net of related debt	2,212,284	1,884,589	1,790,385
Unrestricted	<u>811,958</u>	<u>2,817,398</u>	<u>4,295,619</u>
Total Net Assets	3,569,026	4,701,987	6,086,004
Total Liabilities and Net Assets	\$ <u>7,687,770</u>	\$ <u>7,202,661</u>	\$ <u>8,448,751</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER AND AFFILIATE
 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Net patient service revenues	\$ 13,027,691	\$ 12,477,931	\$ 12,102,147
Property taxes	308,700	277,757	257,778
Grants	23,086	-0-	24,778
Donations	-0-	100	-0-
Gain (loss) on disposal of assets	(11,000)	-0-	313
Other operating revenues	<u>297,070</u>	<u>230,649</u>	<u>141,655</u>
Total Revenues	<u>13,645,547</u>	<u>12,986,437</u>	<u>12,526,671</u>
Expenses			
Salaries	6,093,762	5,836,877	6,054,072
Benefits and payroll taxes	1,193,024	1,196,038	1,049,818
Supplies and drugs	706,919	787,181	805,907
Professional fees	2,576,484	2,346,682	2,348,778
Other expenses	3,274,091	3,281,899	3,044,966
Insurance	477,810	419,536	418,683
Depreciation and amortization	<u>483,416</u>	<u>504,539</u>	<u>431,005</u>
Total Expenses	<u>14,805,506</u>	<u>14,372,752</u>	<u>14,153,229</u>
Operating Income (Loss)	<u>(1,159,959)</u>	<u>(1,386,315)</u>	<u>(1,626,558)</u>
Nonoperating Revenues (Expenses)			
Interest income on investments limited as to use	63,725	31,858	41,907
Interest income other	3,942	5,723	968
Interest expense	<u>(40,669)</u>	<u>(35,283)</u>	<u>(35,206)</u>
Excess of Revenues (Expenses) before Discontinued Operations	(1,132,961)	(1,384,017)	(1,618,889)
Discontinued Operations (Note 15)	<u>-0-</u>	<u>-0-</u>	<u>4,129</u>
Excess of Revenues (Expenses)	(1,132,961)	(1,384,017)	(1,614,760)
Beginning Net Assets	<u>4,701,987</u>	<u>6,086,004</u>	<u>7,700,764</u>
Ending Net Assets	<u>\$ 3,569,026</u>	<u>\$ 4,701,987</u>	<u>\$ 6,086,004</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 13,761,730	\$ 12,689,229	\$ 12,172,383
Other receipts from operations	621,136	508,506	421,639
Cash payments to employees and for employee-related cost	(7,255,100)	(6,958,221)	(7,191,153)
Cash payments for other operating expenses	<u>(6,544,860)</u>	<u>(6,783,223)</u>	<u>(5,974,810)</u>
Net cash provided (used) by operating activities	<u>582,906</u>	<u>(543,709)</u>	<u>(571,941)</u>
Cash flows from investing activities:			
Cash invested limited use assets	-0-	-0-	(1,126,980)
Cash proceeds limited use assets	185,550	1,190,968	2,255,028
Interest income	<u>67,667</u>	<u>37,581</u>	<u>42,875</u>
Net cash provided (used) by investing activities	<u>253,217</u>	<u>1,228,549</u>	<u>1,170,923</u>
Cash flows from capital and related financing activities:			
Proceeds from notes payable	1,149,596	173,000	467,000
Proceeds from sales of property, plant, and equipment	5,000	-0-	25,002
Acquisition of property, plant, and equipment	(1,863,454)	(562,897)	(965,358)
Cash spent on new projects	-0-	45,960	(114,878)
Principal payments on long-term debt	(113,253)	(143,467)	(134,864)
Interest expense	<u>(40,669)</u>	<u>(35,283)</u>	<u>(35,206)</u>
Net cash provided (used) by capital and related financing activities	<u>(862,780)</u>	<u>(522,687)</u>	<u>(758,304)</u>
Net increase (decrease) in cash and cash equivalents	(26,657)	162,153	(159,322)
Beginning cash and cash equivalents	<u>137,310</u>	<u>(24,843)</u>	<u>134,479</u>
Ending cash and cash equivalents	\$ <u>110,653</u>	\$ <u>137,310</u>	\$ <u>(24,843)</u>

See accompanying notes to financial statements

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
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 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (1,159,959)	\$ (1,386,315)	\$ (1,626,558)
Discontinued operations	-0-	-0-	4,129
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation	483,416	439,160	431,005
Amortization	-0-	65,379	-0-
(Gain) loss on disposal of assets	11,000	-0-	(313)
Provision for bad debts	2,245,345	1,983,292	1,923,456
Change in current assets (increase) decrease			
Patient accounts receivable, net	(1,751,522)	(1,532,860)	(2,057,140)
Estimated third-party payor settlements	240,216	(239,134)	(11,463)
Accrued interest receivable	(7,720)	-0-	11,779
Inventory	(829)	(43,599)	(30,357)
Prepaid expenses	(60,861)	4,220	34,293
Change in current liabilities (increase) decrease			
Accounts payable	550,041	89,282	730,416
Accrued expenses	31,686	74,694	41,894
Change in other assets (increase) decrease	<u>2,093</u>	<u>2,172</u>	<u>(23,082)</u>
Net cash provided (used) by operating activities	\$ <u>582,906</u>	\$ <u>(543,709)</u>	\$ <u>(571,941)</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ <u>34,722</u>	\$ <u>35,283</u>	\$ <u>35,206</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
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HOSPITAL ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Richland Parish Hospital Service District No. 1B (the Hospital or the District) was created by an ordinance of the Richland Parish Police Jury on April 18, 1989. The District is comprised of the entire parish excluding Ward 1 of the Parish of Richland, State of Louisiana, as constituted as of the date of the ordinance

Effective as of October 1, 1989, Richland Parish Hospital Service District No. 1 (which operated hospitals in Delhi and Rayville) transferred operations of the hospital in Rayville and clinic in Mangham to Richland Parish Hospital Service District No. 1B, along with all related assets, liabilities, and equity. On November 3, 1998, Richland Parish Hospital Service District No. 1B transferred operations and management of the Mangham Outpatient Clinic to Richland Parish Hospital Service District No. 1C

The Hospital is a political subdivision of the Richland Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Richland Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Richland Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Richland Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

An affiliate, Richland Open MRI, LLC (the Company) was organized on May 18, 2006, as a Louisiana limited liability company. The Company is a perpetual limited liability company. The Hospital had a 100% ownership in the Company.

Nature of Business

The Hospital provides outpatient, skilled nursing (through "swing-beds"), home health (by joint venture beginning May 2005) and acute inpatient hospital services. In September 1995, the District opened a unit to provide geriatric psychiatric services and was recognized as a Medicare "distinct part" unit effective October 1, 1995. Also in 1995, the District began operation of a rural health clinic

Richland Open MRI, LLC provides MRI services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Hospital uses 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 Entities 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. 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 to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Richland and surrounding 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 a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Changes in federal and state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenues

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenues (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.

Inventory

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

Income Taxes

The entity is a political subdivision and exempt from taxation

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues 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.

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.

Reclassifications

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

NOTE 3 - 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.

Custodial Credit Risks – Custodial credit risk for deposit is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at September 30, 2006, 2005 and 2004.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient accounts receivable	\$ 3,108,208	\$ 4,057,928	\$ 4,038,122
Other accounts receivable	<u>29,605</u>	<u>21,054</u>	<u>34,077</u>
	3,137,813	4,078,982	4,072,199
Estimated uncollectibles	<u>(1,345,670)</u>	<u>(1,793,016)</u>	<u>(1,341,000)</u>
Net patient accounts receivable	\$ <u>1,792,143</u>	\$ <u>2,285,966</u>	\$ <u>2,731,199</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	34%	33%	36%
Medicaid	7%	6%	17%
Commercial and other third-party payors	32%	29%	23%
Patients	<u>27%</u>	<u>32%</u>	<u>24%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation at September 30:

	September 30, <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2006</u>
Land	\$ 16,000	\$ -0-	\$ -0-	\$ 16,000
Land improvements	28,867	-0-	-0-	28,867
Buildings and improvements	4,269,803	356,592	-0-	4,626,395
Major movable equipment	6,718,758	1,553,071	28,000	8,243,829
Construction in progress	<u>46,208</u>	<u>-0-</u>	<u>46,208</u>	<u>-0-</u>
Total	11,079,636	1,909,663	74,208	12,915,091
Accumulated depreciation	<u>8,554,147</u>	<u>483,417</u>	<u>12,000</u>	<u>9,025,564</u>
Net	\$ <u>2,525,489</u>	\$ <u>1,426,246</u>	\$ <u>62,208</u>	\$ <u>3,889,527</u>
	September 30, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2005</u>
Land	\$ 16,000	\$ -0-	\$ -0-	\$ 16,000
Land improvements	28,867	-0-	-0-	28,867
Buildings and improvements	3,731,202	538,601	-0-	4,269,803
Major movable equipment	6,541,016	177,742	-0-	6,718,758
Construction in progress	<u>199,653</u>	<u>335,375</u>	<u>488,820</u>	<u>46,208</u>
Total	10,516,738	1,051,718	488,820	11,079,636
Accumulated depreciation	<u>8,114,986</u>	<u>439,161</u>	<u>-0-</u>	<u>8,554,147</u>
Net	\$ <u>2,401,752</u>	\$ <u>612,557</u>	\$ <u>488,820</u>	\$ <u>2,525,489</u>

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NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

	September 30, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2004</u>
Land	\$ 16,000	\$ -0-	\$ -0-	\$ 16,000
Land improvements	28,867	-0-	-0-	28,867
Buildings and improvements	3,132,827	598,375	-0-	3,731,202
Major movable equipment	6,354,149	300,230	113,363	6,541,016
Construction in progress	<u>129,361</u>	<u>653,903</u>	<u>583,611</u>	<u>199,653</u>
 Total	 9,661,204	 1,552,508	 696,974	 10,516,738
Accumulated depreciation	<u>7,772,655</u>	<u>431,005</u>	<u>88,674</u>	<u>8,114,986</u>
 Net	 \$ <u>1,888,549</u>	 \$ <u>1,121,503</u>	 \$ <u>608,300</u>	 \$ <u>2,401,752</u>

NOTE 6 - ASSETS WHOSE USE IS LIMITED

The following assets are restricted as to use as designated below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Restricted by Third Parties			
Used as collateral for a bank loan	\$ 544,784	\$ -0-	\$ -0-
Restricted by Hospital Board			
To be used for asset additions and replacements - Certificates of deposits	649,959	1,380,293	2,420,410
Less limited use assets required for current liabilities	<u>(544,784)</u>	<u>-0-</u>	<u>-0-</u>
 Non-current limited use assets	 \$ <u>649,959</u>	 \$ <u>1,380,293</u>	 \$ <u>2,420,410</u>

NOTE 7 - OTHER ASSETS

Other assets consist of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medical scholarships receivable, net of allowances for uncollectibles	\$ <u>41,346</u>	\$ <u>43,439</u>	\$ <u>50,810</u>

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NOTE 8 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt and capital lease obligations as of September 30:

	September 30, <u>2005</u>	<u>Additions</u>	<u>Payments</u>	September 30, <u>2006</u>	<u>Due Within One Year</u>
USDA note payable	\$ 412,484	\$ -0-	\$ 44,837	\$ 367,647	\$ 46,779
Series 2004A bond payable	200,000	-0-	40,000	160,000	40,000
Note payable - MRI buildout	-0-	262,464	-0-	262,464	262,464
Note payable - MRI equipment	-0-	861,805	-0-	861,805	861,805
Note payable - MRI operating	-0-	25,327	-0-	25,327	25,327
Capital lease obligation	<u>28,416</u>	<u>-0-</u>	<u>28,416</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>640,900</u>	\$ <u>1,149,596</u>	\$ <u>113,253</u>	\$ <u>1,677,243</u>	\$ <u>1,236,375</u>
	September 30, <u>2004</u>	<u>Additions</u>	<u>Payments</u>	September 30, <u>2005</u>	<u>Due Within One Year</u>
USDA note payable	\$ 455,457	\$ -0-	\$ 42,973	\$ 412,484	\$ 44,837
Series 2004A bond payable	27,000	173,000	-0-	200,000	40,000
Capital lease obligation	<u>128,910</u>	<u>-0-</u>	<u>100,494</u>	<u>28,416</u>	<u>28,416</u>
Total	\$ <u>611,367</u>	\$ <u>173,000</u>	\$ <u>143,467</u>	\$ <u>640,900</u>	\$ <u>113,253</u>
	September 30, <u>2003</u>	<u>Additions</u>	<u>Payments</u>	September 30, <u>2004</u>	<u>Due Within One Year</u>
USDA note payable	\$ 54,875	\$ 440,000	\$ 39,418	\$ 455,457	\$ 42,974
Series 2004A bond payable	-0-	27,000	-0-	27,000	27,000
Capital lease obligation	<u>224,356</u>	<u>-0-</u>	<u>95,446</u>	<u>128,910</u>	<u>102,235</u>
Total	\$ <u>279,231</u>	\$ <u>467,000</u>	\$ <u>134,864</u>	\$ <u>611,367</u>	\$ <u>172,209</u>

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NOTE 8 - LONG-TERM DEBT (Continued)

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

- USDA note payable at 4.25%, due in 120 monthly installments of \$5,125 through August 12, 2013, collateralized by operating revenues
- Series 2004A Revenue Bond, at 5% below Prime not to exceed 6 25%, due in 5 annual installments of \$40,000 plus interest, collateralized by a pledge and dedication of Hospital revenues.
- Capital lease obligation at 6 89%, due in 60 monthly installments of \$8,994 through December 1, 2005, secured by radiology equipment.
- Bancorp South Bank note payable for building renovation at 7.75%, interest due in monthly installments with principal payment due December 15, 2006, secured by certificates of deposit
- Bancorp South Bank note payable for MRI equipment at 7.75%, interest due in monthly installments with principal payment due August 3, 2007, secured by MRI equipment
- Bancorp South Bank \$250,000 line of credit at 7.75%, interest due in monthly installments with principal payment due August 23, 2007, of which \$224,673 was unused as of September 30, 2006.

Scheduled principal and interest payments on long-term debt and payments on capital lease obligations are as follows:

<u>Year Ended September 30,</u>	<u>Long-term Debt Principal</u>	<u>Long-term Debt Interest</u>
2007	\$ 1,236,375	\$ 84,492
2008	88,807	17,893
2009	90,921	13,379
2010	93,129	8,771
2011	55,431	6,069
2012 thru 2013	<u>112,580</u>	<u>4,829</u>
Totals	\$ <u>1,677,243</u>	\$ <u>135,433</u>

NOTE 9 - AFFILIATED ORGANIZATION

Affiliated organizations include Richland Parish Hospital Service District No. 1, Richland Parish Hospital Service District No. 1A, and the Richland Parish Police Jury. The districts are related because they are all political subdivisions of the Richland Parish Police Jury who appoints their commissioners.

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NOTE 9 - AFFILIATED ORGANIZATION (Continued)

During the fiscal years ended September 30, the Hospital had the following transactions and balances with its affiliated organization, Richland Parish Hospital Service District No. 1A, dba Richland Parish Hospital - Delhi

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Beginning amount due from (to) Richland Parish Hospital - Delhi	\$ -0-	\$ (3,299)	\$ 3,057
Revenue earned by the Hospital	5,034	16,411	19,965
Received from Richland Parish Hospital - Delhi	<u>(5,034)</u>	<u>(13,112)</u>	<u>(26,321)</u>
Ending amount due from (to) Richland Parish Hospital - Delhi	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>(3,299)</u>

NOTE 10 - PENSION PLAN

The Hospital elected to withdraw from the Social Security System effective January 1, 1994. In place of Social Security, the Hospital established a defined contribution annuity plan. Employees are eligible to participate upon the date of employment and after one year of service the employee is fully vested in the employer's matching contribution. Contributions to the plan by the Hospital are determined by the Board of Commissioners. The plan requires a minimum total contribution by the Hospital and the employee of at least 7.5%. The amounts charged to pension expense under this plan were \$330,545, \$349,492, and \$386,133 for the years ended September 30, 2006, 2005, and 2004, respectively.

NOTE 11 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$226,008, \$261,807, and \$240,251 of vacation pay at September 30, 2006, 2005, and 2004, respectively. 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 Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

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NOTE 12 - NET PATIENT SERVICE REVENUES

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 through December 31, 2008, if not extended by Congress. The hold harmless payments were \$150,705, \$132,342, and \$89,433, for the years ended September 30, 2006, 2005, and 2004, respectively. Swing bed routine services are reimbursed based on a prospectively determined rate per patient day. Geriatric inpatient psychiatry is reimbursed based upon a cost reimbursement methodology subject to a limit amount per discharge. Effective October 1, 2005, this method of reimbursement begins a four (4) year transition to a prospective method based upon length of stay, diagnosis, and other factors. In year one (1) the District is paid seventy-five percent (75%) based on the old cost based system and twenty-five percent (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. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

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 revenues for the years ended September 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service revenues	\$ 21,864,861	\$ 22,233,303	\$ 23,022,483
Contractual adjustments	(7,844,166)	(8,531,549)	(9,816,864)
Provision for bad debts	(2,245,345)	(1,983,292)	(1,923,456)
Discounts	(34,112)	(37,714)	(8,483)
Uncompensated care reimbursement	<u>1,286,453</u>	<u>797,183</u>	<u>828,467</u>
Net patient service revenues	<u>\$ 13,027,691</u>	<u>\$ 12,477,931</u>	<u>\$ 12,102,147</u>

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 12 - NET PATIENT SERVICE REVENUES (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 net patient service revenues for the years ended September 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid charges	\$ 15,806,965	\$ 16,003,494	\$ 16,953,684
Contractual adjustments	<u>(6,687,874)</u>	<u>(6,644,973)</u>	<u>(8,054,209)</u>
Program patient service revenue	\$ <u>9,119,091</u>	\$ <u>9,358,521</u>	\$ <u>8,899,475</u>
Percent of total gross patient charges	<u>72%</u>	<u>72%</u>	<u>74%</u>
Percent of total net patient revenues	<u>70%</u>	<u>75%</u>	<u>74%</u>

The Hospital received interim amounts of \$1,286,453, \$797,183 and \$828,467 for Medicaid and self-pay uncompensated care services (UCC) for the years ended September 30, 2006, 2005, and 2004, respectively, which represents 10%, 6%, and 7% 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. Current regulations do not provide for settlement of underpayments by Medicaid. 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. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature. Should the State not fund or substantially change this program, it would have a significant impact on the Hospital's revenue.

NOTE 13 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 14 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - The Hospital 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.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

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 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 fraud and abuse statutes as well as other 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 13) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Hospital's insurance carrier.

The Hospital also participates in the Louisiana Hospital Association Self-Insurance Employee Benefits Trust Fund. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$30,000 or aggregate claims exceeding \$1,000,000 per year.

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 15 - DISCONTINUED OPERATIONS AND JOINT VENTURES

The District discontinued home health services on May 1, 2004. The home health assets were sold for \$25,000. A "cooperative endeavor" agreement was entered into with Richardson Medical Center Homecare, LLC on May 1, 2004. The agreement's intention is to ensure that home health services are readily available to the residents of the Hospital's District. The Hospital participates in profits and losses equal to its ownership share of thirty-three percent (33%). The following is a summary of home health operations for the years ended September 30:

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Net home health revenues	\$ -0-	\$	-0-	\$	201,032
Operating expenses	<u>-0-</u>		<u>-0-</u>		<u>196,903</u>
Income from operations	\$ <u>-0-</u>	\$	<u>-0-</u>	\$	<u>4,129</u>

The Hospital also entered into a joint venture to provide cardiac cath lab services with the local physicians. The Hospital participates in profits and losses equal to its ownership share of twelve percent (12%).

NOTE 16 - AD VALOREM TAXES

The Hospital levies a property tax on all property subject to taxation in the service district. A 9.22 mill tax runs for a period of ten years, beginning with the year 2002 and ending with the year 2012, to be dedicated and used for operating, maintaining, renovating, and improving emergency medical services. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 15 each year, due by December 31, and are considered delinquent by January 31.

NOTE 17 - SUBSEQUENT EVENTS

In October 2006, thirteen (13) local physicians purchased forty-nine percent (49%) interest of Richland Open MRI, LLC by guaranteeing 49% of the bank debt of the LLC.

The Hospital paid \$141,508 on March 1, 2007, in order to terminate the Hospital's management contract.

SUPPLEMENTARY INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUES
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Routine Services:			
Adult and pediatric	\$ 1,371,665	\$ 1,585,374	\$ 1,396,877
Intensive care unit	210,800	218,860	236,220
Swing bed	263,100	254,100	190,580
Senior care	<u>816,850</u>	<u>763,300</u>	<u>899,300</u>
Total Routine Services	<u>2,662,415</u>	<u>2,821,634</u>	<u>2,722,977</u>
Other Professional Services:			
Operating and recovery room			
Inpatient	392,094	483,064	314,454
Outpatient	1,111,067	1,123,492	1,035,272
Swing bed	19,453	30,031	6,750
Senior care	<u>-0-</u>	<u>-0-</u>	<u>355</u>
Total	<u>1,522,614</u>	<u>1,636,587</u>	<u>1,356,831</u>
Anesthesia			
Inpatient	112,015	79,778	87,318
Outpatient	322,379	213,188	276,911
Swing bed	<u>-0-</u>	<u>-0-</u>	<u>2,096</u>
Total	<u>434,394</u>	<u>292,966</u>	<u>366,325</u>
Radiology			
Inpatient	957,442	1,111,150	1,034,067
Outpatient	1,761,795	1,515,143	1,706,813
Swing bed	17,511	20,876	22,638
Senior care	<u>33,587</u>	<u>32,895</u>	<u>35,788</u>
Total	<u>2,770,335</u>	<u>2,680,064</u>	<u>2,799,306</u>
Laboratory			
Inpatient	1,058,951	1,147,979	1,099,523
Outpatient	1,058,991	904,747	792,871
Swing bed	52,846	58,757	40,971
Senior care	<u>61,197</u>	<u>37,990</u>	<u>47,426</u>
Total	<u>\$ 2,231,985</u>	<u>\$ 2,149,473</u>	<u>\$ 1,980,791</u>

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Blood			
Inpatient	\$ 195,456	\$ 170,107	\$ 163,935
Outpatient	20,299	18,954	12,551
Swing bed	8,287	4,151	2,463
Senior care	<u>356</u>	<u>21</u>	<u>21</u>
Total	<u>224,398</u>	<u>193,233</u>	<u>178,970</u>
Respiratory therapy			
Inpatient	1,201,166	1,552,285	1,600,067
Outpatient	49,585	60,116	93,674
Swing bed	197,639	208,624	187,721
Senior care	<u>22,103</u>	<u>18,830</u>	<u>11,892</u>
Total	<u>1,470,493</u>	<u>1,839,855</u>	<u>1,893,354</u>
Occupational therapy			
Inpatient	55,387	55,114	79,664
Outpatient	40	57	24,962
Swing bed	36,240	29,207	56,116
Senior care	<u>19,845</u>	<u>8,650</u>	<u>23,235</u>
Total	<u>111,512</u>	<u>93,028</u>	<u>183,977</u>
Electrocardiology			
Inpatient	90,623	165,309	364,827
Outpatient	92,616	131,813	258,585
Swing bed	232	1,551	2,592
Senior care	<u>6,602</u>	<u>10,370</u>	<u>14,724</u>
Total	<u>190,073</u>	<u>309,043</u>	<u>640,728</u>
Central supply			
Inpatient	169,648	203,324	300,513
Outpatient	293,156	278,316	559,156
Swing bed	8,585	12,323	7,298
Senior care	<u>1,263</u>	<u>732</u>	<u>2,845</u>
Total	<u>\$ 472,652</u>	<u>\$ 494,695</u>	<u>\$ 869,812</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Pharmacy			
Inpatient	\$ 1,991,973	\$ 2,233,060	\$ 2,999,314
Outpatient	395,162	388,182	516,029
Swing bed	241,992	229,772	238,247
Senior care	<u>118,492</u>	<u>109,572</u>	<u>130,140</u>
 Total	 <u>2,747,619</u>	 <u>2,960,586</u>	 <u>3,883,730</u>
 Cardiac rehab			
Outpatient	<u>(30)</u>	<u>10,605</u>	<u>28,587</u>
 Psychiatric therapy			
Outpatient	<u>-0-</u>	<u>68,000</u>	<u>598,225</u>
 Emergency room			
Inpatient	514,065	460,759	290,653
Outpatient	2,564,176	2,234,066	1,701,193
Swing bed	1,075	300	-0-
Senior care	<u>1,119</u>	<u>665</u>	<u>999</u>
 Total	 <u>3,080,435</u>	 <u>2,695,790</u>	 <u>1,992,845</u>
 Observation			
Outpatient	<u>57,196</u>	<u>28,111</u>	<u>32,367</u>
 Rural health clinic			
Outpatient	<u>3,353,205</u>	<u>3,110,227</u>	<u>2,579,116</u>
 Hospital physician			
Clinic	\$ <u>535,565</u>	\$ <u>851,406</u>	\$ <u>914,542</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Other professional services			
Inpatient	\$ 6,738,820	\$ 7,661,929	\$ 8,334,335
Outpatient	7,726,432	6,972,790	7,637,196
Clinics	3,888,770	3,961,633	3,493,658
Swing bed	583,860	595,592	566,892
Senior care	<u>264,564</u>	<u>219,725</u>	<u>267,425</u>
Total Other Professional Services	<u>19,202,446</u>	<u>19,411,669</u>	<u>20,299,506</u>
Gross Patient Service Charges	<u>21,864,861</u>	<u>22,233,303</u>	<u>23,022,483</u>
Allowances and Uncollectibles:			
Contractual adjustments	7,844,166	8,531,549	9,816,864
Provision for bad debts	2,245,345	1,983,292	1,923,456
Discounts	34,112	37,714	8,483
Uncompensated care reimbursement	<u>(1,286,453)</u>	<u>(797,183)</u>	<u>(828,467)</u>
Total Allowances and Uncollectibles	<u>8,837,170</u>	<u>9,755,372</u>	<u>10,920,336</u>
Net Patient Service Revenue	\$ <u>13,027,691</u>	\$ <u>12,477,931</u>	\$ <u>12,102,147</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cafeteria	\$ 38,597	\$ 34,123	\$ 34,161
Medical records	1,198	1,450	1,773
Vending machines	7,999	8,964	9,196
Rentals	45,940	75,806	39,600
Pharmacy sales to employees	38,491	39,383	40,406
Joint venture income	96,192	36,577	14,351
Miscellaneous	<u>68,653</u>	<u>34,346</u>	<u>2,168</u>
 Total Other Operating Revenue	 \$ <u>297,070</u>	 \$ <u>230,649</u>	 \$ <u>141,655</u>

HOSPITAL SERVICE DISTRICT NO. 1B
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHARDSON MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 CONSOLIDATED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Administrative and general	\$ 730,992	\$ 729,421	\$ 863,483
Plant operations and maintenance	124,705	117,084	141,034
Housekeeping	213,850	145,367	128,902
Dietary and cafeteria	161,916	150,313	159,566
Nursing administration	64,543	69,609	69,818
Central supply	58,726	65,816	78,598
Pharmacy	245,029	239,132	228,637
Medical records	77,415	78,214	80,996
Nursing services	1,326,457	1,265,517	1,232,189
Intensive care unit	283,331	327,234	409,558
Senior care unit	354,832	283,167	330,687
Operating room	247,741	225,202	205,394
Anesthesia	-0-	-0-	1,625
Radiology	363,065	342,845	318,092
Respiratory therapy	330,005	262,442	270,752
Occupational therapy	-0-	-0-	61,736
EKG and EEG	24,339	22,673	39,484
Cardiac rehab	-0-	20,671	75,966
Psychiatric therapy	-0-	16,033	69,257
Emergency room	560,419	482,708	372,513
Rural health clinic	679,933	541,606	423,465
Physician clinic	<u>246,464</u>	<u>451,824</u>	<u>492,320</u>
 Total Salaries	 <u>6,093,762</u>	 <u>5,836,877</u>	 <u>6,054,072</u>
 Payroll taxes	 123,232	 95,579	 82,602
Hospitalization insurance	733,438	749,767	585,307
Retirement	330,545	349,492	379,309
Other	<u>5,809</u>	<u>1,200</u>	<u>2,600</u>
 Total Benefits	 <u>1,193,024</u>	 <u>1,196,038</u>	 <u>1,049,818</u>
 Total Salaries and Benefits	 <u>\$ 7,286,786</u>	 <u>\$ 7,032,915</u>	 <u>\$ 7,103,890</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medical records	\$ 11,301	\$ 2,190	\$ 7,710
Senior care unit	-	200	9,200
Operating room	967	4,078	8,560
Anesthesiology	190,360	185,000	188,306
Radiology	519	-	(625)
Laboratory	721,014	741,885	658,323
Respiratory therapy	-	2,475	-
Occupational therapy	30,538	40,094	8,325
EKG	17,715	12,500	15,150
Cardiac rehab	-	2,000	5,520
Psychiatric services	-	5,200	15,600
Emergency room	701,372	603,309	650,054
Rural health clinic	902,698	747,751	707,655
Physician clinic	-	-	75,000
	<hr/>	<hr/>	<hr/>
Total Professional Fees	\$ <u>2,576,484</u>	\$ <u>2,346,682</u>	\$ <u>2,348,778</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Management fees	\$ 549,838	\$ 672,369	\$ 452,838
Contract services	518,232	576,523	442,215
Legal and accounting	218,724	45,127	40,679
Supplies	1,096,773	1,123,190	1,135,816
Repairs and maintenance	246,325	270,670	190,297
Utilities	211,565	201,505	211,700
Telephone	127,278	124,226	108,582
Travel, other	30,530	30,772	11,005
Rentals	140,239	170,855	201,492
Education	25,955	15,182	27,665
Recruitment and advertising	26,429	26,841	193,329
Dues and subscriptions	81,016	24,058	27,639
Miscellaneous	<u>1,187</u>	<u>581</u>	<u>1,709</u>
Total Other Expenses	\$ <u>3,274,091</u>	\$ <u>3,281,899</u>	\$ <u>3,044,966</u>

HOSPITAL SERVICE DISTRICT NO. 1B
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHARDSON MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
SCHEDULES OF PER DIEM AND
OTHER COMPENSATION PAID TO BOARD MEMBERS
YEARS ENDED SEPTEMBER 30,

	-----TERM-----		<u>2006</u>	<u>2005</u>	<u>2004</u>
	<u>BEGAN</u>	<u>ENDING</u>			
Mr. Moses Wilkins	12/21/93	12/05/07	NONE	NONE	NONE
Mr. Oliver Holland	04/18/89	08/01/09	NONE	NONE	NONE
Dr. Craig P. Folse	03/07/95	07/18/04	N/A	N/A	NONE
Mr. Alan Thompson	06/20/00	06/20/04	N/A	N/A	NONE
Mr. Ted Seffens	06/20/00	07/20/04	N/A	N/A	NONE
Mr. Lee McDonald	12/05/01	12/05/07	NONE	NONE	NONE
Mr. Grover Burgess	08/02/04	08/02/08	NONE	NONE	N/A
Mrs. Janet Cheek	02/07/05	02/07/07	NONE	NONE	N/A
Dr. Ronald Hubbard	05/02/05	08/07/06	NONE	NONE	N/A
Dr. Lester Johnson	08/07/06	05/02/08	NONE	N/A	N/A



LESTER, MILLER & WELLS

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

Board of Commissioners
Hospital Service District No. 1B
Parish of Richland, State of Louisiana
Rayville, Louisiana

We have audited the consolidated financial statements of Richland Parish Hospital Service District No. 1B, (the District or the Hospital) and its affiliate as of and for the years ended September 30, 2006, 2005, and 2004, and have issued our report thereon dated March 29, 2007. 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 opinions on the consolidated financial statements and not to provide an opinion 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.

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, of the reportable conditions, we consider item 2004-2 to be a material weakness.

Board of Commissioners
Hospital Service District No. 1B
Parish of Richland, State of Louisiana
Rayville, Louisiana
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

March 29, 2007



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Our comments and recommendations with management's responses are repeated from last year with our assessment of resolution in 2006.

Internal Controls

2006-01

Finding: Signature cards for the checking accounts contained signatures of past employees.

Recommendation: We recommend that the signature cards be updated to contain current authorized signers only.

Management's Response: Signature cards for all Hospital accounts have been updated.

2006-02

Finding: While testing expense accounts, we noted that some vendor expenses were inconsistently coded to different expense accounts

Recommendation: We suggest training the staff on proper coding of invoices. Additionally, management should review the financials for consistency in order to provide accurate financial statements to the Board for decision making.

Management's Response: The accounting staff has been instructed as to the importance of coding vendor expenses consistently to the correct general ledger accounts. A listing of recurring expenses is now used to assist with this task. In addition, the controller reviews all invoices for expense coding.

2005-01

Finding: During the audit, the Hospital's employees were unable to locate some of the invoices requested or find a refund check mailed to the Hospital. Management had to request copies of invoices from its vendors to support various payments and a reissued refund check. Additionally, we noted that some of the invoices from the previous fiscal year were commingled in the current year's files.

Recommendation: We recommend establishing procedures and training employees on maintaining accounts payable files.

Management's Response: The Hospital has established files for unpaid invoices along with files which have been paid for both the current year and prior fiscal years. The accounts payable list is being reviewed and reconciled against vendor's statements to assure that we do not have duplicate invoices recorded for payment.

Resolution: This matter has been resolved.



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Internal Controls (Continued)

2005-02

Finding: While searching for supporting documentation, we noted that the off-site storage access was not limited. The records stored were confidential in manner. Also, some of the records were not properly labeled.

Recommendation: We recommend restricting access to confidential records and maintaining a file system for all records.

Management's Response: Access to the off-site storage area has been secured by placing new locks on the doors to limit access to the site. The Hospital is in the process of establishing a system to destroy any records that are no longer needed and properly label and secure any files that need to be maintained.

Resolution: This matter has been resolved.

2004-01

Finding: The credit balances for accounts receivable grew from \$55,816 at September 30, 2003 to \$285,729 at September 30, 2004.

Recommendation: We recommend the Hospital assign the duty of investigating credit balances on patient accounts to one person who will make necessary adjustments to or timely refunds of the balances as needed on a monthly basis.

Management's Response: The Hospital will investigate and follow up on credit balances on a monthly basis.

Resolution: This matter has not been resolved and the 2006 balance is \$241,079.

2004-02

Finding: We noted that various accounts were not reconciled in a timely manner during the fiscal year.

Recommendation: We recommend reconciling accounts on a monthly basis in order to provide accurate reporting of financial information.

Management's Response: Reconciliations will be provided on a monthly basis in a timely manner.

Resolution: This matter has been partially resolved. Some of the accounts are now reconciled in a timely manner, but other accounts still need to be reconciled on a monthly basis.



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Internal Controls (Continued)

2004-04

Finding: The Hospital did not maintain Medicare and Medicaid logs to support charges, payments, or statistical information needed in order to file a complete and accurate Medicare and Medicaid cost report.

Recommendation: The Hospital should maintain Medicare and Medicaid cost report logs on a monthly basis.

Management's Response: Medicare and Medicaid cost report logs will be maintained on a monthly basis.

Resolution: This matter has not been resolved.

2004-05

Finding: The Hospital was not maintaining an interim list of Medicare bad debts for cost reporting purposes.

Recommendation: We recommend maintaining a list of Medicare bad debts on a monthly basis, which allows interim reporting to Medicare and should allow Medicare to make interim pass through payments to accelerate cash flow.

Management's Response: A Medicare bad debt list will be maintained on a monthly basis.

Resolution: This matter has not been resolved.

Compliance

2006-01

Finding: The Hospital did not obtain State Bond Commission approval for its new long term borrowings.

Recommendation: We recommend the Hospital seek State Bond Commission approval.

Management's Response: The necessary documentation has been provided to the Hospital's bonding attorney to request State Bond Commission approval for the three loans obtained in 2006.

Resolution: This matter has been resolved.



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Compliance (Continued)

2006-02

Finding: The Hospital's Medicare bad debt list contained write-offs of approximately \$37,000 that did not meet the 120 day criteria. The Medicare reimbursement would have been approximately \$27,000 if the Hospital were able to claim these bad debts.

Recommendation: We recommend that the staff review the criteria for a Medicare write-off and follow the guidelines.

Management's Response: The staff will be reminded of the Medicare requirements to qualify for reimbursement. The controller will periodically review the bad debt log to ensure the criteria are followed.

2004-01

Finding: While testing a physician contract, the Hospital was unable to locate supporting documentation for the payments.

Recommendation: We recommend requesting supporting documentation or obtaining a refund on all payments for physician contracts not having adequate support.

Management's Response: The Hospital will request adequate support for the payments made on the physician's contract.

Resolution: This matter has been resolved.

Management Comments

2006-01

Finding: Management did not acquire billing numbers for Richland Open MRI, LLC. Without the billing numbers, the Company has been unable to collect from third party payors

Recommendation: We recommend obtaining all billing numbers as soon as possible.

Management's Response: The Hospital is currently waiting for state survey in order to obtain the Medicare provider number



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Management Comments (Continued)

2006-02

Finding: During the year ended September 30, 2006, the Hospital acquired note obligations from a local bank for renovation, equipment and operating purposes. The new debts of \$1,149,596 are all due within one year.

Recommendation: We recommend obtaining long-term financing, since the Hospital is unable to pay the debt within one year

Management's Response: The notes were set up on a one year maturing until the total amount was determined; thereafter the lending bank is to refinance the debt with a seven to ten year payout.

2006-03

Finding: The Hospital did not report the quality indicators to the Centers for Medicare and Medicaid services. The reporting is voluntary, but if reported the Hospital would receive additional Medicare reimbursement.

Recommendation: We recommend reporting the quality indicators in order to receive the additional reimbursement.

Management's Response: Quality measures and reporting data to the Clinical Warehouse has been implemented with successful submission for three quarters in 2006.

2004-01

Finding: Gross patient accounts receivable grew from \$5.4 million at September 30, 2003 to \$6.6 million at September 30, 2004. Most of the increase was in the Medicare and Medicaid accounts receivable.

Recommendation: We recommend training staff and establishing procedures for accurate billing, follow up and collection of all patient accounts receivable in a timely manner.

Management's Response: The Hospital will provide adequate training and procedures for billing and collecting of all patient accounts receivable

Resolution: This matter has been resolved.



RICHARDSON MEDICAL CENTER
MANAGEMENT RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Management Comments (Continued)

2004-02

Finding: The Hospital reported a substantial loss during the fiscal year ended September 30, 2004. The loss was mostly attributable to an increase in spending.

Recommendation: We recommend reviewing expenses and related revenues to determine where efficiencies can be attained and profitability is maximized.

Management's Response: The Hospital has made reductions in expenses and is continuing to make additional reductions.

Resolution: This matter has not been resolved

