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HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

JUNE 30, 2003

BATON ROUGE, LOUISIANA

CONTENTS

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July 29, 2004

Independent Auditor's Report

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

We have audited the accompanying Consolidating Statement of Financial Position of Health Care Services Foundation and Subsidiary as of June 30, 2003, and the related Consolidating Statements of Activities, and Cash Flows for the year ended June 30, 2003 and the 53 week period then ended for its Subsidiary. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Bogalusa Community Medical Center Foundation as of June 30, 2003, which statements reflect total assets of $7,712,201 as of June 30, 2003 and total support and revenues of $1,956,075 for the 53 week period then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Bogalusa Community Medical Center Foundation, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Health Care Services Foundation and Subsidiary as of June 30, 2003, and the changes in net assets and cash flows for the year then ended and for the 53 week period for its Subsidiary in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Hannis T. Bourgeois, LLP

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2003

ASSETS	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	2003 Consolidated Totals
Current Assets:				
Cash	$ 34,925	$ -	$ -	$ 34,925
Accounts Receivable Less Allowance of $2,353,026	-	110,081	-	110,081
Prepaid Expenses	-	205,749	-	205,749
Other Current Assets	-	70,604	-	70,604
Total Current Assets	34,925	386,434	-	421,359
Assets Limited as to Use	-	200,878	-	200,878
Land, Buildings and Equipment, at Cost Less Accumulated Depreciation of $14,320,803	-	6,593,690	-	6,593,690
Other Assets	-	531,199	-	531,199
Total Assets	$ 34,925	$ 7,712,201	$ -	$ 7,747,126
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Excess Outstanding Checks Over Bank Balance	$ -	3,529	$ -	$ 3,529
Accounts Payable	35,696	63,624	-	99,320
Accrued Compensated Absences	-	23,786	-	23,786
Estimated Third-Party Payables	-	407,148	-	407,148
Other Liabilities		2,159	-	2,159
Current Portion of Long-Term Debt	-	402,929	-	402,929
Total Current Liabilities	35,696	903,175	-	938,871
Long-Term Liabilities:				
Long-Term Debt	-	3,527,228	-	3,527,228
Net Assets:			-	
Unrestricted	(771)	3,281,798	-	3,281,027
Total Liabilities and Net Assets	$ 34,925	$ 7,712,201	$ -	$ 7,747,126

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR AND FIFTY-THREE WEEK PERIOD ENDED JUNE 30, 2003

	Health Care Services Foundation Unrestricted (year ended June 30, 2003)	Bogalusa Community Medical Center Unrestricted (53 week period ended June 30, 2003)	Eliminations	2003 Consolidated Totals
Revenues from Operations:				
Management and Implementation Fees	$ 35,000	$ -	$ (35,000)	$ -
Other Revenue, Primarily Rental Income	-	1,956,075	-	1,956,075
	35,000	1,956,075	(35,000)	1,956,075
Operating Expenses:				
Bad Debts	-	558,683	-	558,683
Depreciation and Amortization	-	705,183	-	705,183
Interest Expense	-	265,757	-	265,757
Legal and Professional	28,972	80,658	(35,000)	74,630
Management Fees	4,000	-	-	4,000
Service Charges	74	-	-	74
Supplies, Employee Benefits, and Other	-	962,640	-	962,640
Surveys and Testing	2,725	-	-	2,725
	35,771	2,572,921	(35,000)	2,573,692
Change in Net Assets	(771)	(616,846)	-	(617,617)
Net Assets - Beginning of Year	-	3,898,644	-	3,898,644
Net Assets - End of Year	$ (771)	$ 3,281,798	$ -	$ 3,281,027

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION

CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR AND FIFTY-THREE WEEK PERIOD ENDED JUNE 30, 2003

	Health Care Services Foundation (year ended June 30, 2003)	Bogalusa Community Medical Center (53 week period ended June 30, 2003)
Cash Flows From Operating Activities:		
Change in Net Assets	$ (771)	$ (616,846)
Adjustments to Reconcile Change in		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	-	705,183
(Gain) Loss on Sale of Asset	-	457
Provision for Bad Debts	-	558,683
Transfer of Compensated Absence Liability	-	(727,819)
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	-	1,598,410
(Increase) Decrease in Inventories	-	467,082
(Increase) Decrease in Other Current Assets	-	(62,079)
(Increase) Decrease in Prepaid Expense	-	(150,405)
(Increase) Decrease in Other Assets	-	(420,186)
Increase (Decrease) in Accounts Payable	35,696	(1,027,827)
Increase (Decrease) in Estimated Third Party Payables	-	42,999
Increase (Decrease) in Accrued Expenses	-	(236,973)
Net Cash Provided by Operating Activities	34,925	130,679
Cash Flows From Investing Activities:		
Purchases of Capital Assets	-	(31,038)
Proceeds From Sale of Fixed Assets	-	100
Increase in Assets Limited to as Use	-	(7,596)
Net Cash Used in Investing Activities	-	(38,534)
Cash Flows from Financing Activities:		
Repayment of Debt	-	(313,907)
Increase (Decrease) in Excess Outstanding Checks Over Bank Balance	-	3,529
Net Cash Provided by (Used in) Financing Activities	-	(310,378)
Net Increase (Decrease) in Cash and Cash Equivalents	34,925	(218,233)
Cash and Cash Equivalents - Beginning of Year	-	218,233
Cash and Cash Equivalents - End of Year	$ 34,925	$ -
Supplemental Disclosure of Cash Flow Information:		
Cash Payments for Interest	$ -	$ 257,995

The accompanying notes are an integral part of this statement.

Eliminations	2003 Consolidated Totals
$ -	$ (617,617)
-	705,183
-	457
	558,683
	(727,819)
-	1,598,410
-	467,082
	(62,079)
-	(150,405)
-	(420,186)
-	(992,131)
-	42,999
-	(236,973)
-	165,604
-	(31,038)
-	100
-	(7,596)
-	(38,534)
-	(313,907)
-	3,529
-	(310,378)
-	(183,308)
-	218,233
$ -	$ 34,925
$ -	$ 257,995

Note 1 - Summary of Significant Accounting Policies -

Organization

Health Care Services Foundation, ('the Foundation') is a nonprofit organization, incorporated in the State of Louisiana that provides support and appropriate services to the Health Care Services Division of the Louisiana State University Health Sciences Center ('the Division') which includes purchasing, leasing, owning, operating, managing and selling property and services to maximize healthcare capabilities in Louisiana. Bogalusa Community Medical Center Foundation ('BCMC') is a nonprofit, non-stock corporation, incorporated in the State of Louisiana that previously operated a 112-bed hospital in Bogalusa, Louisiana. On April 25, 2002, the Foundation became the sole member of the BCMC. Effective June 24, 2002, the hospital's facilities were leased to the Louisiana State University Health Care Service Department. The financial statements of the BCMC are presented from the inception of the lease, which resulted in a fifty-three week period presentation.

Operations

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

The BCMC entered into an agreement to lease space, land and equipment to Louisiana State University Health Care Sciences Division to be used as a hospital effective June 24, 2002, and extending until June 24, 2007 with an option to extend, at a monthly rental of $125,082. The total cost of the leased property and equipment was $19,494,082. Related accumulated depreciation as of June 30, 2003, totaled $13,832,262. Total annual rental income for the next four years will approximate $6,003,936.

In connection with the aforementioned leasing transaction, the Louisiana State University Health Care Services Department ("LSUHCSD") assumed the compensated absence liability related to all BCMC staff whose employment was transferred to LSUHCSD.

The BCMC entered into a lease of certain property and equipment to a third party to be used as a clinic effective September 1, 1997 and extending until May 21, 2005, at a monthly rental of $15,258 per month. The total cost of the leased property and equipment was $1,416,611 at June 30, 2003. Related accumulated depreciation as of June 30, 2003, totaled $488,541. Total annual rental income for the next two years will approximate $351,000.

The BCMC also entered into an agreement to lease space to a third party to be used as a 14-bed rehabilitation hospital at a monthly rental of $14,857 on a month-to-month basis.

Principles of Consolidation

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

Basis of Accounting

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Net Assets

The Foundation and Subsidiary classifies assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions. The Foundation and Subsidiary do not have any temporarily restricted or permanently restricted net assets at June 30, 2003.

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.

Assets Limited As to Use

Assets limited as to use include assets held by trustees under indenture agreements, and designated assets set aside by the Board of Trustees for future plant replacement and expansion over which the Board retains control and may at its discretion use for other purposes. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the balance reported as long-term assets.

Prepaid Expenses and Deferred Charges

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

Property and Equipment

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

Cost of Borrowing

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

Compensated Absences

Employees are compensated for absences due to earned vacation, holiday, and sick leave. Accumulated vacation and holiday pay is accrued at the balance sheet date because it accumulated and is payable upon termination of employment. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

Contributions

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

Estimates

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

Federal Income Taxes

Health Care Services Foundation and Subsidiary are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). There were no unrelated business activities for the year or fifty-three week period ended June 30, 2003. Accordingly, no tax expense was incurred during the year or fifty-three week period ended June 30, 2003.

Note 2 - Related Parties -

Health Care Services Foundation is affiliated with the Health Care Services Division of the Louisiana State University Health Sciences Center which provides management and administrative services to the Organization for a fee. Administrative fees for the fiscal year ended June 30, 2003 totaled $4,000. The Foundation owes Health Care Services Division fees of $4,000 at June 30, 2003, which is included in accounts payable as reflected in these financial statements.

Health Care Services Foundation is the sole member of Bogalusa Community Medical Center Foundation. The Foundation provides management and administrative services to the BCMC. Administrative fees received for the fiscal year ended June 30, 2003 totaled $35,000.

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

Note 3 - Concentration of Credit Risk -

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

Note 4 - Assets Limited as to Use -

The composition of assets limited as to use at June 30, 2003 for the Subsidiary is set forth below. Investments are stated at fair value.

Under Indenture Agreements:	
Cash deposits	$ 48,878
Certificates of deposit	152,000
Total	$ 200,878

Investment income for assets limited as to use and cash equivalents is comprised of the following for the fifty-three week period ended June 30, 2003:

Interest income	$ 3,784

Note 5 - Property, Plant and Equipment -

A summary of property, plant and equipment for the Subsidiary at June 30, 2003 is set forth below:

Land	$ 18,585
Buildings	10,752,584
Equipment	8,192,176
Equipment Under Capital Leases	530,736
Clinic Property	1,416,612
	20,910,693
Less Accumulated Depreciation and Amortization	14,320,803
Construction in Progress	3,800
Property, Plant and Equipment, Net	$ 6,593,690

Depreciation and amortization expense for the fifty-three week period ended June 30, 2003, amounted to $705,183. Accumulated amortization for equipment under capital lease obligations at June 30, 2003, is $292,999.

Note 6 - Long-Term Debt -

A summary of long-term debt and capital lease obligations for the Subsidiary at June 30, 2003 follows:

USDA-FMHA loan, due in monthly installments through December 2036, at an interest rate of 4.50 percent, collateralized by BCMC revenue, converted from construction loan	$ 2,608,230
Bank loan, due in monthly installmens through January 2012, at an interest rate of 10.44 percent, collateralized by mortgage and security interest, converted from construction loan	183,779
Bank loan, due in monthly installments through January 2012, at an interest rate of 9.20 percent, collateralized by mortgage and security interest, converted from construction loan	712,110
Bank loans, due in monthly installments through November 2005, with interest rates from 8.65 to 9.85 percent, collateralized by rental property	231,172

(CONTINUED)

Capital leases, with varying rates of imputed interest, from 6.78 to 19.01 percent, collateralized by leased equipment with book value of approximately $316,000 at June 23, 2002	194,866
	3,930,157
Less Current Portion	402,929
Long-Term Debt, Net of Current Portion	$ 3,527,228

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

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

Year Ending June 30,	Long-Term Debt	Obligations Under Capital Leases
2004	$ 345,565	$ 151,590
2005	182,227	106,593
2006	129,196	94,929
2007	140,005	62,074
2008	151,802	-
Thereafter	2,786,496	-
Total	$ 3,735,291	415,186
Less Amount Representing Interest Under Capital Lease Obligations		220,320
		$ 194,866

A summary of interest cost of borrowed funds follows:

Interest cost charged to operations	$ 265,757

Note 7 - Insurance Programs -

Medical Malpractice Insurance

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

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

Note 8 - Functional Expenses -

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

Healthcare services	$ 803,780
Rental activities	1,529,623
General and administrative services	239,518
Total	$ 2,572,921

Note 9 - Commitments and Contingencies -

Operating Leases

The BCMC leases various equipment under operating leases expiring at various dates through November 2006. Total rental expense for the fifty-three week period ended June 30, 2003, for all operating leases was approximately $97,000.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2003, that have initial or remaining lease terms in excess of one year:

Year Ending June 30,	Amount
2004	$ 48,861
2005	40,284
2006	15,733

Litigation

The BCMC is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the BCMC's future financial position or results of operations.

Note 10 - Subsequent Events -

Subsequent to year end, the Foundation received a donation of a doctor's office building property and facility. Improvements have been made to the facility and the new appraised value is expected to be $2.3 million. In addition, the property and facility has been leased to the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College effective as of December 19, 2003. The lease is for a 10 year period beginning July 1, 2004 and has one ten year option to renew. Base rent for the first year will be $53,323 per month. In addition, the Foundation borrowed funds in the amount of $2.5 million to fund the renovations of the facility.