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

Release Date 1/27/10

Management's Discussion and Analysis and Basic Financial Statements

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Management's Discussion and Analysis and Basic Financial Statements

Years Ended June 30, 2009 and 2008

Contents

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the accompanying basic financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital) as of and for the years ended June 30, 2009 and 2008. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2009, 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, grants, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

September 15, 2009

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Management's Discussion and Analysis

June 30, 2009

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital), presents background information and management's analysis of the Hospital's financial performance. Please read it in conjunction with the basic financial statements in this report.

Required Financial Statements

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

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

Financial Highlights for the Year Ended June 30, 2009

- The Hospital's total assets increased by approximately $11,020,000 or 4%, primarily due to cash generated by operating and investing activities used to increase capital assets.

- During the year, the Hospital's total operating revenue increased approximately $34,300,000 or 15%, to $268,635,000 from the prior year while expenses increased approximately $35,147,000 or 16%, to $257,097,000. The Hospital had income from operations of $11,539,000, which is approximately 4.3% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately $12,385,000, or 5% of operating revenue.

- The Hospital received approximately $4,174,000 in 2007 from a Medicare Stabilization Grant as part of the Deficit Reduction Act Katrina Healthcare Related of which $1,391,000 was used to offset Medicare contractual adjustments each year in 2007, 2008, and 2009. The Hospital also received approximately $396,000 and $1,393,000 in 2009 and 2008, respectively, in disproportionate share payments related to uncompensated care costs which offset Medicaid contractual adjustments. These offsets resulted in an increase in net patient service revenue.

- During the fiscal year, the Hospital made capital investments for a total of approximately $19,143,000. The following is a list of significant items:

Capital Investments	2009 Cost
Parking structure	$ 5,411,000
Resource Center office building	3,125,000
Medical Center expansion	2,423,000
Livingston Parish Medical Complex	1,328,000
Interactive classroom auditorium	882,000
Radiology equipment	829,000
Human Resource expansion	774,000

The source of the funding for these projects was derived from operations.

Financial Highlights for the Year Ended June 30, 2008

- The Hospital's total assets increased by approximately $15,507,000 or 6%, primarily due to cash generated by operating and investing activities used to increase capital assets.

- During the year, the Hospital's total operating revenue increased approximately \$28,830,000 or 14%, to \$234,334,000 from the prior year while expenses increased approximately \$20,975,000 or 10%, to \$221,950,000. The Hospital had income from operations of \$12,385,000, which is approximately 5% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$4,529,000 or 2.2% of operating revenue.

- The Hospital received approximately \$4,174,000 in 2007 from a Medicare Stabilization Grant as part of the Deficit Reduction Act Katrina Healthcare Related of which \$1,391,000 was used to offset Medicare contractual adjustments each year in 2007 and 2008. The remaining \$1,391,000 has been deferred to 2009. The Hospital also received approximately \$1,393,000 and \$404,000 in 2008 and 2007, respectively, in disproportionate share payments related to uncompensated care costs which offset Medicaid contractual adjustments. These offsets resulted in an increase in net patient service revenue.

- During the fiscal year, the Hospital made capital investments for a total of approximately \$20,402,000. The following is a list of significant items:

Capital Investments	2008 Cost
Hammond Cardiology Clinic purchase	\$ 1,281,000
Rehabilitation Hospital renovation	1,147,000
Resource Center Office building	7,046,000
Medical Center expansion	3,049,000
Interactive Classroom auditorium	503,500
Livingston Parish Medical complex	464,000
Radiology equipment	609,000

The source of the funding for these projects was derived from operations and proceeds from 2003 bond issuances.

Net Assets

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

TABLE 1
Condensed Balance Sheets

	June 30		
	2009	**2008**	**2007**
Total current assets	**$ 62,164,195**	$ 63,935,089	$ 54,468,396
Capital assets – net	**118,741,948**	112,339,687	104,268,638
Other assets, including board-designated investments	**114,163,457**	107,775,271	109,805,772
Total assets	**$ 295,069,600**	$ 284,050,047	$ 268,542,806
Current liabilities	**$ 31,372,036**	$ 30,971,658	$ 29,549,136
Long-term debt outstanding and other long-term liabilities	**86,748,986**	90,787,441	94,364,992
Total liabilities	**118,121,022**	121,759,099	123,914,128
Net assets:			
Invested in capital assets, net of related debt	**31,200,769**	24,377,927	33,593,579
Restricted net assets	**8,656,122**	8,733,455	8,647,173
Unrestricted net assets	**137,091,687**	129,179,566	102,387,926
Total liabilities and net assets	**$ 295,069,600**	$ 284,050,047	$ 268,542,806

As can be seen in Table 1, total assets increased by approximately $11,020,000 and $15,507,000 to $295,070,000 and $284,050,000 during 2009 and 2008, respectively. The change in total assets is primarily due to increases in property, plant, and equipment, and increases in investments, which were funded by the excess of revenues over expenses during fiscal years 2009 and 2008.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's revenues and expenses for each of the fiscal years ended June 30, 2009, 2008, and 2007:

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

	Years Ended June 30 2009	2008	2007
Revenue:			
Net patient service revenue	**$ 264,263,497**	$ 230,585,659	$ 201,470,105
Other	**4,371,863**	3,748,749	4,034,196
Total operating revenue	**268,635,360**	234,334,408	205,504,301
Expenses:			
Salaries and employee benefits	**166,982,700**	141,071,487	127,112,443
Supplies, contract services, equipment, and fees	**59,067,547**	50,186,713	45,346,748
Other operating expenses	**14,111,591**	13,790,110	12,125,401
Depreciation	**12,703,095**	12,330,043	11,586,145
Interest	**4,231,593**	4,571,334	4,804,257
Total operating expenses	**257,096,526**	221,949,687	200,974,994
Operating income	**11,538,834**	12,384,721	4,529,307
Investment income	**3,118,796**	5,277,549	5,726,129
Excess of revenue and income over expenses	**14,657,630**	17,662,270	10,255,436
Net assets at beginning of year	**162,290,948**	144,628,678	134,373,242
Net assets at end of year	**$ 176,948,578**	$ 162,290,948	$ 144,628,678

Sources of Revenue

Operating Revenue

During fiscal years 2009, 2008, and 2007, the Hospital derived the majority, approximately 98%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the 2009, 2008, and 2007 fiscal years.

TABLE 3
Payor Mix by Percentage

	Years Ended June 30		
	2009	**2008**	**2007**
Managed care	**19%**	20%	20%
Medicare	**51**	49	48
Medicaid	**20**	21	21
Commercial insurance	**6**	6	6
Self-pay and other	**4**	4	5
Total patient revenues	**100%**	100%	100%

Other Revenue

The following table summarizes other revenue:

TABLE 4
Other Revenue

	Years Ended June 30		
	2009	**2008**	**2007**
Cafeteria	**$ 1,538,770**	$ 1,416,940	$ 1,178,497
Day care	**777,770**	751,750	674,294
Gift shop	**361,273**	378,258	334,698
Rental income	**365,738**	542,233	600,674
X-ray school income	**128,755**	116,407	124,327
Premier purchasing rebates	**488,280**	479,776	337,591
Miscellaneous	**711,277**	63,385	784,115
Total other revenue	**$ 4,371,863**	$ 3,748,749	$ 4,034,196

Investment Income

As a Hospital Service District, governed by the state of Louisiana, Louisiana statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The Hospital holds designated and restricted funds that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of $3,118,796, $5,277,549, and $5,726,129 during fiscal years 2009, 2008, and 2007, respectively. In 2009, the Federal Reserve Bank lowered the interest rates due to turmoil in the financial markets resulting in a decrease in investment income.

Operating and Financial Performance

Overall activity at the Hospital, as measured by patient discharges, decreased 2.6% to 16,476 discharges in 2009 from 16,914 discharges in 2008. Patient days increased 1.6% over the prior year from 91,643 in 2008 to 93,105 in 2009. The average length of stay for all patients (excluding newborns) increased to 5.7 days in 2009 from 5.4 days in 2008. Per the Louisiana Hospital Association, the national trend of hospital admissions has decreased since 2008. The increase in length of stay is due to increases in acuity of patients with an increase in case mix index.

Outpatient registrations improved 3% to 110,847 in 2009 from 107,249 in 2008. Clinic visits increased 25% to 159,035 in 2009 from 126,745 in 2008. In 2009, North Oaks ENT and Allergy Clinic was added to serve the community.

Overall activity at the Hospital, as measured by patient discharges, improved 2.5% to 16,914 discharges in 2008 from 16,501 discharges in 2007. Patient days increased 5.9% over the prior year from 86,510 in 2007 to 91,643 in 2008. The average length of stay for all patients (excluding newborns) increased to 5.4 days in 2008 from 5.2 days in 2007.

Outpatient registrations improved 13% to 107,249 in 2008 from 94,793 in 2007. Clinic visits increased 80% to 126,745 in 2008 from 70,264 in 2007. In 2008, four clinics were added to serve the community: Walker Family Medicine, North Oaks Pulmonology, North Oaks Cardiology, and Magnolia Obstetrics and Gynecology.

TABLE 5
Patient and Hospital Statistical Data

	Years Ended June 30		
	2009	**2008**	**2007**
Admissions:			
Adult and pediatric	**13,848**	14,378	14,122
Newborn and NICU	**1,680**	1,771	1,803
Psychiatric care	**410**	440	429
CMR services	**498**	535	447
Patient days:			
Adult and pediatric	**75,178**	72,488	69,381
Medicare (included in adult and pediatric)	**45,781**	42,388	40,004
Medicaid (included in adult and pediatric)	**13,479**	14,324	13,491
Newborn and NICU	**7,033**	6,887	7,048
Psychiatric care	**4,383**	4,564	4,599
CMR services	**6,511**	7,704	5,482
Operating room patients	**10,820**	10,979	10,431
Outpatient registrations	**110,847**	107,249	94,793
Emergency room visits	**71,543**	73,217	72,724
Average daily census:			
Adult and pediatric	**206**	198	190
Psychiatric care	**12**	13	13
CMR services	**18**	21	15
Average length of stay (excluding newborn):			
All patients	**5.7**	5.4	5.2
Medicare patients	**6.7**	6.4	6.2
Medicaid patients	**4.2**	4.1	3.9
Psychiatric care	**10.7**	10.3	10.7
CMR services	**13.2**	14.4	12.5
Percentage of total patient days:			
Medicare	**60.9%**	58.5%	57.6%
Medicaid	**17.9%**	19.8%	19.4%
Clinic visits	**159,035**	126,745	70,264
Full-time equivalents (FTEs)	**2,222**	2,092	1,916

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2009 and 2008:

Increases in net patient service revenue primarily were due to volume and rate increases as depicted on the proceeding page, Table 5, Patient and Hospital Statistical Data. Net patient services revenue represents gross patient revenue net of allowances.

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

TABLE 6
Allowance Summary

	Years Ended June 30		
	2009	**2008**	**2007**
Allowances:			
Provision for bad debts	**$ 48,326,522**	$ 45,057,919	$ 37,811,033
Charity care	**4,625,887**	3,875,996	4,436,282
Other adjustments	**3,991,821**	2,901,582	2,433,750
Managed care contractual allowances	**136,833,628**	107,967,829	76,937,792
Medicaid contractual allowances	**202,387,011**	156,759,875	128,714,545
Medicare contractual allowances	**471,733,778**	351,203,240	263,975,056
	$867,898,647	$667,766,441	$514,308,458

Provision for bad debt increased approximately $3,269,000 or 7%, to $48,327,000 in 2009 from $45,058,000 in 2008. This percentage decreased 12% compared to a 19% increase between 2008 and 2007 due to a decrease in self pay as a percent of total revenue.

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of approximately $4,626,000 were forgone during 2009, compared to $3,876,000 in 2008, or a 19% increase from the prior fiscal year.

Salaries expense increased approximately $16,945,000 or 15%, to $128,825,000 in 2009 from $111,880,000 in 2008. As a percentage of net patient service revenue, salary expense was approximately 48% and 49% for the fiscal years ended June 30, 2009 and 2008, respectively. The increase in salaries expense was primarily due to new physician clinics and employee anesthesiologists, minimum wage and nursing salary adjustments.

Employee benefit expense increased approximately $8,967,000 or 31%, from prior year. As a percentage of salaries expense, employee benefit expense was approximately 30% and 26% for the fiscal years ended June 30, 2009 and 2008, respectively. The increase in employee benefit expense was primarily due to increases in health insurance cost, retirement benefits, workers compensation coverage, and nurse loan repayments assistance program.

Supplies expense increased approximately $7,161,000 or 20%, from prior year. As a percentage of net patient service revenue, supplies expense remained constant at 16% for the fiscal years ended June 30, 2009 and 2008. The increase in supplies expense was primarily due to volume increases, increases in cost of medical supplies, and increases of medical supplies required for increased cardiac surgery and neurosurgery procedures.

Contract services, equipment, and fees increased approximately $1,720,000 or 12%, from prior year. The increase in expense was primarily a result of the costs associated with additional service contracts.

Other operating expenses increased approximately $321,000 or 2%, from prior year. As a percentage of operating revenue, other operating expenses decreased to 5% from 6% for the fiscal years ended June 30, 2009 and 2008, respectively. The increase in other operating expenses is due to increases in utility costs.

Depreciation expense increased approximately $373,000 or 3%, from prior year. This increase in expense is due to major building additions being placed in service.

Interest expense decreased approximately $340,000 or 7%, from prior year. This decrease is primarily due to decreased interest rates on 2003B variable bonds.

Total operating expenses increased by $35,147,000 for the year ended June 30, 2009, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income decreased from the prior year due primarily to the lower interest rates by the Federal Reserve Bank due to turmoil in the financial markets.

The following summarized the Hospital's statements of revenue, expenses, and changes in net assets between 2008 and 2007:

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of approximately $3,876,000 were forgone during 2008, compared to $4,436,000 in 2007, or a 13% decrease from the prior fiscal year.

Salaries expense increased approximately $9,785,700 or 10%, to $111,880,400 in 2008 from $102,094,700 in 2007. As a percentage of net patient service revenue, salary expense was approximately 49% and 51% for the fiscal years ended June 30, 2008 and 2007, respectively. The increase in salaries expense was primarily due to physician clinic acquisitions, minimum wage and nursing salary adjustments.

Employee benefit expense increased approximately $4,173,000 or 17%, from prior year. As a percentage of salaries expense, employee benefit expense was approximately 26% and 25% for the fiscal years ended June 30, 2008 and 2007, respectively. The increase in employee benefit expense was primarily due to increases in health insurance cost, retirement benefits, and nurse loan repayments.

Supplies expense increased approximately $2,920,000 or 9%, from prior year. As a percentage of net patient service revenue, supplies expense decreased to approximately 16% from 17% for the fiscal years ended June 30, 2008 and 2007, respectively. This percentage decrease was mainly due to management's efforts in utilizing GPO contracts and the negotiation of capitated contracts. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Contract services, equipment, and fees increased approximately $1,920,000 or 16%, from prior year. The increase in expense was primarily a result of the costs associated with additional maintenance and service contracts.

Other operating expenses increased approximately $1,665,000 or 14%, from prior year. As a percentage of operating revenue, other operating expenses remained constant at 6% for the fiscal years ended June 30, 2008 and 2007. The increase in other operating expenses is due to increases in patient compensation fund insurance premiums and physician/nurse recruitment costs.

Depreciation expense increased approximately $744,000 or 6%, from prior year. This increase in expense is due to major building additions being placed in service.

Interest expense decreased approximately $233,000 or 5%, from prior year. This decrease is primarily due to decreased interest rates on 2003B variable bonds.

Total operating expenses increased by approximately $20,975,000 for the year ended June 30, 2008, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income increased from the prior year due primarily to changes in interest rates earned on investments.

Capital Assets

During fiscal years 2009 and 2008, the Hospital invested approximately $19,143,000 and $20,402,000, respectively, in a broad range of property, plant, and equipment included in Table 7 below.

TABLE 7
Property, Plant, and Equipment

		June 30	
	2009	**2008**	**2007**
Land	**$ 5,998,809**	$ 5,998,809	$ 5,737,335
Building and equipment	**246,140,267**	223,531,571	209,475,282
Subtotal	**252,139,076**	229,530,380	215,212,617
Less accumulated depreciation	**151,511,649**	138,985,485	126,716,030
Construction-in-progress	**18,114,521**	21,794,792	15,772,051
Net property, plant, and equipment	**$118,741,948**	$112,339,687	$104,268,638

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building new space to accommodate inpatient services. The addition of a Resource Center was completed in November 2008. Other projects include a parking structure to be completed in September 2009, Livingston Parish Medical Complex to be completed in October 2010, and ongoing inpatient facility expansion.

In Table 8, the Hospital's fiscal year 2010 capital budget projects spending up to $57,531,000 for capital projects. These projects will be financed from operations and the anticipated bond proceeds from the 2009 bonds intended to be issued in October 2009. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 8
Fiscal Year 2010 Capital Budget

Equipment and physician practice purchases and facility renovations	$ 11,999,000
North Oaks Medical Center expansion	18,713,000
Livingston Parish Medical Complex	11,241,000
Medical Office Building	7,704,000
Hospital Information System	6,136,000
Parking Structure	1,738,000
Total	$ 57,531,000

Long-Term Debt (Excluding Capital Leases)

In July 2003, $70,000,000 of Hospital Revenue Bonds were sold; $50,000,000 of these bond proceeds was used to refund a portion of the Series 1994 Bonds. In August 2003, an additional $20,000,000 of bonds were sold. The net proceeds of these sales were used to fund additions, renovations, and improvements to the Hospital's facilities. Further, in June 2004, $5,000,000 of Hospital Refunding Bonds were sold. The net proceeds of these sales were used to refund additional amounts of Series 1994 Bonds.

At June 30, 2009, the Hospital had approximately $87,710,000 in short-term and long-term debt. Total debt has decreased by $1,666,000 in fiscal year 2009, which was due primarily to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 30% of the Hospital's total assets at June 30, 2009, as compared to 31% at June 30, 2008.

At June 30, 2008, the Hospital had approximately $89,376,000 in short-term and long-term debt. Total debt has decreased by $1,854,000 in fiscal year 2008, which was due to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 31% of the Hospital's total assets at June 30, 2008, as compared to 34% at June 30, 2007.

Contacting the Hospital's Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

Basic Financial Statements

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Balance Sheets

	June 30 2009	June 30 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 5,459,723	$ 5,983,953
Short-term investments	200,000	1,500,000
Patient accounts receivable, net of allowance for uncollectibles of $24,800,500 in 2009 and $21,879,000 in 2008	44,865,309	45,822,850
Current portion of designated cash and investments	2,401,061	2,427,731
Inventories	4,732,355	4,519,080
Prepaid expenses and other current assets	4,505,747	3,681,475
Total current assets	62,164,195	63,935,089
Designated cash and investments:		
Under bond indenture agreement held by trustee	8,824,853	10,127,864
By board for plant and equipment additions and replacements	100,082,515	90,035,741
By board for self-insurance claims	1,630,447	1,446,838
	110,537,815	101,610,443
Less current portion	2,401,061	2,427,731
Noncurrent designated cash and investments	108,136,754	99,182,712
Property, plant, and equipment:		
Land	5,998,809	5,998,809
Buildings and equipment	246,140,267	223,531,571
Construction-in-progress	18,114,521	21,794,792
	270,253,597	251,325,172
Less accumulated depreciation	151,511,649	138,985,485
Property, plant, and equipment, net	118,741,948	112,339,687
Unamortized financing costs, net	3,423,498	3,697,265
Note receivable	294,321	328,080
Deferred compensation plan investments	1,003,027	3,275,941
Other assets	1,305,857	1,291,273
Total assets	$295,069,600	$284,050,047

	June 30	
	2009	**2008**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 10,739,590**	$ 10,608,715
Accrued salaries and payroll-related costs	**9,489,387**	7,594,369
Accrued interest payable	**1,405,998**	1,492,973
Accrued self-insurance claims	**4,954,221**	3,573,503
Estimated third-party payor settlements – Medicare and Medicaid	**2,818,888**	4,445,211
Current portion of capital lease obligations	**48,952**	8,950
Current portion of long-term debt	**1,915,000**	1,855,684
Deferred revenue	**–**	1,392,253
Total current liabilities	**31,372,036**	30,971,658
Capital lease obligations, excluding current portion	**183,279**	22,100
Long-term debt, net of unamortized bond premium of $142,680 in 2009 and $154,400 in 2008, excluding current portion	**85,562,680**	87,489,400
Deferred compensation plan obligations	**1,003,027**	3,275,941
Total liabilities	**118,121,022**	121,759,099
Net assets:		
Invested in capital assets, net of related debt	**31,200,769**	24,377,927
Restricted net assets	**8,656,122**	8,733,455
Unrestricted net assets	**137,091,687**	129,179,566
Total net assets	**176,948,578**	162,290,948
Total liabilities and net assets	**$295,069,600**	$284,050,047

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2009	**2008**
Revenue:		
Net patient service revenue	**$ 264,263,497**	$ 230,585,659
Other	**4,371,863**	3,748,749
Total operating revenue	**268,635,360**	234,334,408
Expenses:		
Salaries	**128,824,667**	111,880,378
Employee benefits	**38,158,033**	29,191,109
Supplies	**43,514,253**	36,353,644
Contract services, equipment, and fees	**15,553,294**	13,833,069
Other operating expenses	**14,111,591**	13,790,110
Depreciation	**12,703,095**	12,330,043
Interest	**4,231,593**	4,571,334
Total operating expenses	**257,096,526**	221,949,687
Income from operations	**11,538,834**	12,384,721
Investment income:		
Investment income	**3,143,201**	5,091,665
Unrealized (loss) gain on investments	**(51,777)**	187,473
Realized gain (loss) on investments	**27,372**	(1,589)
Total investment income	**3,118,796**	5,277,549
Excess of revenue and income over expenses	**14,657,630**	17,662,270
Net assets at beginning of year	**162,290,948**	144,628,678
Net assets at end of year	**$ 176,948,578**	$ 162,290,948

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Cash Flows

	Years Ended June 30	
	2009	**2008**
Operating activities		
Cash collected from patients and third-party payors	**$ 266,584,395**	$ 227,055,405
Cash payments to employees and for employee-related costs	**(163,706,965)**	(139,481,045)
Cash payments for supplies, services, and other operating expenses	**(74,066,635)**	(65,444,806)
Net cash provided by operating activities	**28,810,795**	22,129,554
Capital and related financing activities		
Purchases of property, plant, and equipment	**(19,142,562)**	(20,402,275)
Proceeds from disposals of assets	**27,136**	1,025
Principal payments on long-term debt incurred for capital purposes	**(1,855,684)**	(1,802,117)
Principal payments on capital lease obligations	**(66,402)**	(39,652)
Interest payments on long-term debt and capital lease obligations	**(3,978,736)**	(4,332,373)
Other	**189,799**	(41,047)
Net cash used in capital and related financing activities	**(24,826,449)**	(26,616,439)
Investing activities		
Investment income	**3,094,391**	5,463,433
Change in short-term investments	**1,300,000**	(500,000)
Purchases of designated cash and investments	**(69,230,664)**	(91,220,004)
Proceeds from sales and maturities of designated cash and investments	**60,327,697**	91,276,751
Net cash (used in) provided by investing activities	**(4,508,576)**	5,020,180
Net change in cash	**(524,230)**	533,295
Cash and cash equivalents at beginning of year	**5,983,953**	5,450,658
Cash and cash equivalents at end of year	**$ 5,459,723**	$ 5,983,953

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Cash Flows (continued)

	Years Ended June 30	
	2009	**2008**
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	**$ 11,538,834**	$ 12,384,721
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation	**12,703,095**	12,330,043
Bad debt expense	**48,326,522**	45,057,919
Net loss on disposals of assets	**10,070**	158
Amortization of financing costs	**351,551**	360,455
Amortization of premium on long-term debt	**(11,720)**	(11,848)
Interest expense on long-term debt and capital lease obligations	**3,891,762**	4,222,727
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(47,368,981)**	(51,201,099)
Inventories, prepaid expenses, and other assets	**(1,018,372)**	(1,116,980)
Estimated third-party payor settlements – Medicare and Medicaid	**(1,626,323)**	254,500
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	**2,014,357**	(151,042)
Net cash provided by operating activities	**$ 28,810,795**	$ 22,129,554

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital or the District), is a nonprofit public corporation organized under powers granted to parish police juries or councils by Chapter 10, Title 46, of the Louisiana Revised Statutes of 1950, as amended. The District is a political subdivision of the state of Louisiana. All corporate powers are vested in the Board of Commissioners appointed by the Tangipahoa Parish Council. The District owns and operates North Oaks Medical Center (NOMC), licensed for 241 acute beds and 18 geriatric psychiatric beds, North Oaks Rehabilitation Hospital (NORH), licensed for 27 rehabilitation beds and 14 primary care and specialty clinics. The hospitals are located on two campuses in the city of Hammond, Louisiana. The clinics are located in both Livingston and Tangipahoa Parishes. As a political subdivision of the state of Louisiana, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code and from state income taxes.

Basis of Accounting

The Hospital reports in accordance with accounting principles generally accepted in the United States as specified by the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services* and, as a governmental entity, also reports in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The Hospital uses the accrual basis of accounting for proprietary funds. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board of commissioners' designation or under trust agreements.

Short-Term Investments

Short-term investments include investments with a maturity date of 12 months or less.

1. Organization and Significant Accounting Policies (continued)

Investments

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income.

Investment income is reported as nonoperating income.

Inventories

Inventories are valued at the latest invoice price, which approximates market.

Property, Plant, and Equipment

The Hospital records all property, plant, and equipment acquisitions at cost except for assets donated to the Hospital. Donated assets are recorded at appraised value at the date of donation. The Hospital provides for depreciation of its plant and equipment using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association. Equipment recorded under capital lease obligations is included in buildings and equipment, and the associated amortization of these assets is included in depreciation expense.

Unamortized Financing Costs

The Hospital defers costs incurred in connection with the issuance of the bonds and amortizes such costs using the effective interest method over the life of the bond issue. The amortization is included in interest expense. Additionally, the difference between the refunded price of the Series 1994 Bonds and the net carrying amount was deferred. Approximately $4,500,000 has been included in the unamortized financing costs and is being amortized as a component of interest expense over the original life of the Series 1994 Bonds.

Self-Insurance Claims

Accrued self-insurance claims represent the Hospital's best estimate of incurred but unpaid expenses for professional liability, workers' compensation, and employee health claims.

1. Organization and Significant Accounting Policies (continued)

Net Assets

The Hospital's net assets are classified into three components: invested in capital assets, net of related debt, restricted, and unrestricted. These components are defined as follows:

- Invested in capital assets, net of related debt—This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted—This component reports those net assets with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted—This component reports net assets that do not meet the definition of either of the other two components, "restricted" or "invested in capital assets, net of related debt."

Statements of Revenue, Expenses, and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are included in operating revenue or expenses. All peripheral transactions are reported as a component of nonoperating income.

Net Patient Service Revenue and Related Receivables

The Hospital 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.

1. Organization and Significant Accounting Policies (continued)

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. 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. These adjustments resulted in an increase to net patient service revenue of approximately $1,567,000 in 2009 and $30,000 in 2008.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Medicare and Medicaid Reimbursement

The Hospital is reimbursed under the Medicare Prospective Payment System (PPS), which reimburses the Hospital a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The Hospital is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification (APC) based on fixed rates per outpatient procedure.

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on 83.2% of total cost.

Medicare bad debts, Medicare Disproportionate Share Hospital (DSH) payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year, which is subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. It is at least reasonably possible that the recorded estimates will change by material amounts in the near term. Retroactive cost settlements are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods as final settlements are determined. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program and have been recorded in the accounts of the Hospital.

1. Organization and Significant Accounting Policies (continued)

During the years ended June 30, 2009 and 2008, the Hospital's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 71% and 70%, respectively.

Deferred Revenue

During 2007, the Hospital received approximately $4,174,000 from a Medicare Stabilization Grant as part of the Deficit Reduction Act Katrina Healthcare Related of which $1,391,000 was recorded as net patient service revenue in 2009, 2008 and 2007. The grant was issued to offset the increase in labor costs resulting from the effects of Hurricane Katrina for the periods through June 30, 2009.

Income Taxes

The Hospital is exempt from federal income taxation as a political subdivision of the state of Louisiana and, accordingly, the accompanying financial statements do not include any provision for income taxes.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

The prior year financial statements have been reclassified to conform to the current year presentation.

2. Cash, Investments, and Designated Cash and Investments

At June 30, cash and investments balances were as follows:

	Maturity	Fair Value
2009		
Securities type:		
U.S. backed government obligations	**2009–2012**	**$ 31,452,993**
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	**–**	**84,744,545**
		$116,197,538
2008		
Securities type:		
U.S. backed government obligations	2008–2012	$ 73,361,431
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	–	35,732,965
		$109,094,396

Louisiana statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

2. Cash, Investments, and Designated Cash and Investments (continued)

The Hospital has a policy for the composition of asset allocation and specific allocation of funds as outlined below, and the result is that maturity terms are staggered.

	Desired % of Range of Overall Portfolio
Type of investment:	
Certificates of deposit	0% to 100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%
Treasury funds	0% to 100%
Bonds or Notes – issued or guaranteed by federal agencies, or government instrumentalities (which are federally sponsored)	0% to 100%
Mutual funds (100% government-backed)	0% to 25%
Term of investments:	
0 to 6 months	0% to 100%
6 months to 1 year	0% to 100%
1 year to 5.5 years	0% to 100%
5.5 years to 10 years	0% to 30%
Greater than 10 years, but less than 20 years	0% to 30%

During the years ended June 30, 2009 and 2008, the Hospital invested primarily in securities issued by the U.S. Treasury and other federal agencies.

Credit Risk – Investments

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The Hospital had investments in obligations of the U.S. government or explicitly guaranteed by the U.S. government with a fair value of $31,452,993 at June 30, 2009.

2. Cash, Investments, and Designated Cash and Investments (continued)

Concentration of Credit Risk

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At June 30, 2009, the Hospital had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits 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 FDIC insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by FDIC insurance. As of June 30, 2009, $75,548,000 of the Hospital's bank balances of $77,006,000 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2009, the Hospital was not exposed to custodial credit risk for its investments as all were registered in the name of the Hospital.

Interest Rate Risk – Investments

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.

2. Cash, Investments, and Designated Cash and Investments (continued)

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of June 30, 2009.

		Years		
Investment Type	**Fair Value**	**< 1**	**1 – 5**	**> 5**
Federal National Mortgage Association	$ 5,981,280	$ –	$ 5,981,280	$ –
Federal Farm Credit Bank	5,461,693	–	5,461,693	–
Federal Home Loan Bank	15,029,070	–	15,029,070	–
Federal Home Loan Mortgage Corporation	4,980,950	–	4,980,950	–
Total	$ 31,452,993	$ –	$ 31,452,993	$ –

3. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	36%	35%
Medicaid	24	18
Managed care payors	23	24
Other third-party payors	9	9
Patients	8	14
	100%	100%

4. Designated Cash and Investments

The terms of the Hospital's Revenue Bonds (see Note 9) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, 2009 and 2008, the funds were deposited as follows:

	2009	2008
Bond principal account	$ 747,260	$ 764,542
Bond interest account	1,653,802	1,664,224
Bond construction account	168,732	1,414,374
Reserve accounts and other	6,255,059	6,284,724
	$ 8,824,853	$ 10,127,864

The Hospital's Board of Commissioners has designated Hospital funds to be used for future plant and equipment additions, separate and apart from the expansion program (see Note 13), and to fund self-insurance claims. These funds were invested in certificates of deposit, U.S. government obligations, and money market funds at June 30, 2009 and 2008.

5. Note Receivable

The Hospital entered into an agreement with the Cancer, Radiation, and Research Foundation (the Foundation) for the purpose of constructing a facility that provides radiation oncology treatments on an outpatient basis. Under the terms of the agreement, the Hospital provided funds to the Foundation to construct the facility on the Hospital campus. The note receivable is payable over 30 years and bears an annual interest rate of 5.5%. The note receivable balance was approximately $294,300 at June 30, 2009 and $328,100 at June 30, 2008.

The Hospital holds a mortgage on the facility (excluding equipment, furniture, and fixtures) to collateralize the note receivable. In addition, the Hospital agreed to lease the land upon which the facility is located to the Foundation for a nominal annual rental fee. The initial lease term is for 30 years with 3 successive 10-year renewal options.

6. Property, Plant, and Equipment

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2009:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	$ 5,998	$ –	$ –	$ –	$ 5,998
Buildings and fixed equipment	137,158	1,130	–	16,180	154,468
Equipment	86,374	5,481	214	32	91,673
Construction-in-progress	21,795	12,532	–	(16,212)	18,115
	251,325	19,143	214	–	270,254
Less accumulated depreciation	138,985	12,703	176	–	151,512
Property, plant, and equipment, net	$ 112,340	$ 6,440	$ 38	$ –	$ 118,742

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2008:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	$ 5,737	$ 261	$ –	$ –	$ 5,998
Buildings and fixed equipment	127,473	1,682	–	8,003	137,158
Equipment	82,003	4,273	62	160	86,374
Construction-in-progress	15,772	14,186	–	(8,163)	21,795
	230,985	20,402	62	–	251,325
Less accumulated depreciation	126,716	12,330	61	–	138,985
Property, plant, and equipment, net	$ 104,269	$ 8,072	$ 1	$ –	$ 112,340

7. Employee Retirement Plan

The Hospital has a defined contribution plan that covers all full-time employees who elect to participate after they have met certain eligibility requirements. Under the plan, the Hospital is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code (IRC) or 25% of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100% over a five-year cliff vesting schedule in all Hospital

7. Employee Retirement Plan (continued)

contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

Retirement expense, included in employee benefit expense, was approximately $2,883,000 in 2009 and $2,465,000 in 2008, representing the required contributions in both years.

The Hospital also sponsors two deferred compensation plans covering substantially all employees. These plans were established under Section 457 of the IRC. The Hospital reports the plan assets and a corresponding liability in the accompanying financial statements. Accordingly, the Hospital has recorded an asset and a corresponding liability of $1,003,027 and $3,275,941 for the fair market value of the plans' combined assets as of June 30, 2009 and 2008, respectively. The plan balance decreased $1,533,000 due to distributions from the plan and $700,000 due to poor market performance.

8. Risk Management

The Hospital participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice coverage to the Hospital for claims in excess of $100,000, up to $500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to $500,000 per occurrence. Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the Hospital and are currently in various states of litigation. The Hospital has accrued approximately $1,705,600 and $1,923,000 as of June 30, 2009 and 2008, respectively, for the estimated losses and expenses related to general and professional liability claims for which the Hospital is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

8. Risk Management (continued)

The Hospital has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The Hospital had accrued approximately $3,248,600 and $1,651,000 at June 30, 2009 and 2008, respectively, for employee health insurance and workers' compensation claims.

The following table summarizes the changes in the self-insurance liability:

Year Ended June 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2009	**$3,574,000**	**$ 21,583,800**	**$ 20,203,800**	**$ 4,954,000**
2008	$3,526,000	$ 15,329,000	$ 15,281,000	$ 3,574,000

9. Long-Term Debt and Capital Lease Obligations

The Hospital's long-term debt consisted of the following:

	June 30	
	2009	2008
Hospital Revenue Bonds, Series 2003A	**$66,190,000**	$66,935,000
Hospital Revenue Bonds, Series 2003B	**20,000,000**	20,000,000
Hospital Revenue Bonds, Series 2004	**1,145,000**	2,240,000
Capital leases	**232,231**	46,734
Total	**87,567,231**	89,221,734
Plus unamortized bond premium on 2004 and 2003 bonds	**142,680**	154,400
	87,709,911	89,376,134
Less current portion	**1,963,952**	1,864,634
Long-term debt, less current maturities	**$85,745,959**	$87,511,500

9. Long-Term Debt and Capital Lease Obligations (continued)

On July 5, 1994, the District issued $61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The Series 1994 Bonds originally consisted of $16,190,000 of serial bonds and $45,345,000 of term bonds. Portions of the 1994 bonds were repaid in 2003 and 2004.

On July 2, 2003, the District issued $70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A. Approximately $50,000,000 of the Series 2003A Bond proceeds was used to repay a portion of the Series 1994 Bonds. The Series 2003A Bonds originally consisted of $24,080,000 of serial bonds and $45,920,000 of term bonds. The serial bonds mature annually in amounts ranging from $700,000 in 2007 to $2,895,000 in 2018 and bear interest at rates ranging from 2.75% to 5.375%. The term bonds consist of $24,095,000 due February 1, 2025, bearing interest at 5% and $21,825,000 due February 1, 2030, bearing interest at 5%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2009.

On August 28, 2003, the District issued $20,000,000 of Hospital Revenue Bonds, Series 2003B. These serial bonds mature annually in amounts ranging from $2,625,000 in 2030 to $5,920,000 in 2033 at variable interest rates not to exceed 12%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2009.

The Series 2003B Bonds are deemed to be demand bonds and under the terms of the indenture, bond holders may tender to the trustee the outstanding bonds for repurchase. The trustee may then purchase and remarket the bonds. If the bonds fail in the remarketing, the bonds may be purchased by the bank for which the Hospital has executed a letter of credit. The letter of credit agreement, expired on August 27, 2009, subsequently renewed to January 2010, states that the Hospital may request the bank to convert the principal amount of the non-remarketed Series B Bonds into a term loan; principal shall be paid in accordance with the amortization schedule. During the term of the line of credit, interest shall accrue at the base rate plus 2% and shall be payable monthly in arrears on the first business day each month. All obligations shall be paid in full at the letter of credit termination date. As of June 30, 2009, no amount had been drawn on the letter of credit.

9. Long-Term Debt and Capital Lease Obligations (continued)

On September 10, 2009, the Hospital entered into a transaction with a financial institution to purchase the Series 2003B Bonds. The Hospital subsequently cancelled the extension of the letter of credit due to the restrictions placed on the issuance of new debt. The repurchased 2003B Bonds have a final maturity date twenty-four years after closing. The financial institution shall have the right to remarket the bonds at par at the end of the fifth (5^{th}), tenth (10^{th}), fifteenth (15^{th}), and twentieth (20^{th}) year after the closing. As a result of the transaction, the debt service requirements of the Hospital were amended resulting in annual principal payments in varying increments beginning in 2011 through 2033. The prior debt service requirements for the Series 2003B bonds included annual principal payments beginning in 2030 through 2033.

On June 30, 2004, the District issued $5,000,000 of Hospital Revenue Refunding Bonds, Series 2004. The net proceeds of these bonds were used to repay additional amounts of the Series 1994 Bonds. These serial bonds mature annually in amounts ranging from $1,015,000 in 2007 to $1,145,000 in 2010, bearing interest at 3.34%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum levels of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2009.

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2009, were as follows:

	Principal	Interest
2010	$ 1,915,000	$ 3,544,674
2011	2,035,000	3,479,481
2012	2,140,000	3,377,979
2013	2,240,000	3,270,483
2014	2,355,000	3,158,731
2015 – 2019	13,765,000	13,796,643
2020 – 2024	17,630,000	9,944,250
2025 – 2029	22,505,000	5,042,750
2030 – 2033	22,750,000	588,933
	$ 87,335,000	$ 46,203,926

10. Operating Lease Obligations

The Hospital has entered into various cancelable operating leases for equipment. Operating lease expense was approximately $1,147,000 and $938,000 for the years ended June 30, 2009 and 2008, respectively.

11. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone, approximately $4,626,000 in 2009 and $3,876,000 in 2008, for services and supplies furnished under its charity care policy.

12. Governmental Regulations

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, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers in recent years. 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, 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.

13. Commitments

The Hospital has various commitments totaling approximately $16,742,000 at June 30, 2009, and $10,280,000 at June 30, 2008. These commitments include expansion of North Oaks Medical Center, construction of Livingston Parish Medical Complex, construction of a parking structure, and various capital equipment purchases.

14. Subsequent Events

The Hospital plans to issue $99 million of Hospital Revenue Bonds, Series 2009 (Series 2009 Bonds) insured, taxable Build America Bonds on October 7, 2009. These bonds will fund the major expansion program on the NOMC campus involving the construction, installation and equipping of an approximately 231,281 square foot five-story wing to be connected to the existing medical center. The NOMC expansion will include the addition of 67 acute-care beds with related necessary support services and facilities. The NOMC Expansion includes the addition of 14 operating room, 21 post acute recovery units, 12 new same day surgery and pre-operative holding rooms. Additional patient beds are for surgery and telemetry and the renovation of intensive care rooms. The expansion will also include the addition of a central mechanical plant to be equipped with chiller, generator, cooling towers, necessary pumps, heat exchanger and utility loop connection. Other components include the addition of a helipad and medical-gas farm. The remaining portion will provide approximately 48,500 square feet of shelled-in space for future Emergency Department and other expansion.

In addition, the Hospital is also planning to issue tax-exempt Hospital Revenue Bonds, Series 2009B (Series 2009B Bonds) not to exceed $38 million. The proceeds of the Series 2009B Bonds are expected to be used to (i) reimburse the Hospital for the costs of the newly constructed parking facility and (ii) reimburse the Hospital for the costs related to the resource center building.

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

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Ernst + Young LLP

September 15, 2009

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Independent Auditors' Report on Compliance With Revenue Bond Provisions

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital) as of June 30, 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated September 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of Sections 208, 401, 402, 501, 504 through 507, 512, 601, 602, 711, 718, 802(a), 802(b), and 1301 of the Composite Bond Resolution relating to the $61,535,000 Hospital Revenue Bonds (Series 1994) and $90,000,000 Hospital Revenue Bonds (Series 2003) reflecting the provisions of resolutions adopted by the Hospital on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, and August 27, 2003, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Commissioners, management, and the bond trustee, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 15, 2009

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Independent Auditors' Report on Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital) as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated September 16, 2009.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of Sections 501, 711(e), and 718 of the Composite Bond Resolution relating to the $61,535,000 Hospital Revenue Bonds (Series 1994) and $90,000,000 Hospital Revenue Bonds (Series 2003) reflecting the provisions of resolutions adopted by the Hospital on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, and August 27, 2003, in so far as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

We are not aware of any material modifications that should be made to the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense in order for them to be in conformity with the prescribed method described in Note 1.

This report is intended solely for the information and use of the Board of Commissioners, management, and the bond trustee, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 15, 2009

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense (Unaudited)

Year Ended June 30, 2009

Debt service coverage ratio:	
Net income available for debt service:	
Excess of revenue over expenses	$ 14,657,630
Add:	
Depreciation	12,703,095
Interest expense	4,231,593
Net income available for debt service	$ 31,592,318
Maximum annual debt service	$ 6,026,150
Debt service coverage ratio	5.24
Minimum required debt service coverage ratio per Section 501	1.20
Cash on hand*	$ 107,372,685
Average daily expense:	
Operating expenses	$ 257,096,526
Less depreciation	12,703,095
	$ 244,393,431
Average daily expense (based on 365 days)	$ 669,571
Days cash on hand	160
Minimum required days cash on hand per Section 718	60

*Cash on hand, as defined per the Bond Resolution, includes unrestricted cash and marketable securities (including board-designated funds but excluding the proceeds of any indebtedness) as of the last day of the fiscal year.

See accompanying note.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Note to Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense (Unaudited)

Year Ended June 30, 2009

1. Basis of Presentation

The computation in the Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense is prescribed by Sections 501, 711(e), and 718 of the Composite Bond Resolution relating to the $61,535,000 Hospital Revenue Bonds (Series 1994) and $90,000,000 Hospital Revenue Bonds (Series 2003) reflecting the provisions of resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, and August 27, 2003.