

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, 2005 and 2004

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

Release Date 2-8-06

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, 2005 and 2004

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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 balance sheets of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital), as of June 30, 2005 and 2004, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audit 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 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005, 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 audit.

Management's discussion and analysis on pages 3 through 22 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*

October 25, 2005

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

Management's Discussion and Analysis

*Fiscal Year Ended June 30, 2005*

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 during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the financial statements in this report.

**Financial Highlights**

- The Hospital's total assets increased by approximately \$8,542,000, or approximately 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 \$14,201,000, or 9%, to \$163,723,000 from the prior year while expenses increased \$13,129,000, or 9%, to \$158,006,000. The Hospital had income from operations of \$5,717,000, which is approximately 3.5% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$4,645,000, or 3.1% of operating revenue.
- The Hospital received approximately \$2,700,000 and \$2,000,000 in 2005 and 2004, respectively, in intergovernmental transfer funds that were offset against Medicaid contractual adjustments, resulting in an increase in net patient service revenue.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$12,331,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2005 Cost</b>
Outpatient Diagnostic Center	\$6,582,600
Medical Center Expansion	715,500
Rehab Campus Renovation	524,700
Cardiac Monitors and Computers	514,200
Hospital Roofing	508,200
Nurse Call System	300,200
Walker Clinic Office Suites	358,900
Patient Room Renovations	290,900

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Management's Discussion and Analysis (continued)

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

**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). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures 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 statements 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 health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting, should also be considered.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Net Assets*

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

**TABLE 1**  
**Condensed Balance Sheets**

	June 30			
	2005	2004	Dollar Change	Percent Change
Total current assets	\$ 44,516,466	\$ 45,525,680	\$ (1,009,214)	(2)%
Capital assets – net	88,957,902	87,071,022	1,886,880	2%
Other assets, including board- designated investments	<u>104,827,082</u>	<u>97,162,907</u>	<u>7,664,175</u>	8%
Total assets	<u>\$ 238,301,450</u>	<u>\$ 229,759,609</u>	<u>\$ 8,541,841</u>	4%
Current liabilities	\$ 21,137,775	\$ 19,576,484	\$ 1,561,291	8%
Long-term debt outstanding and other long-term liabilities	<u>95,907,114</u>	<u>97,576,852</u>	<u>(1,669,738)</u>	(2)%
Total liabilities	<u>117,044,889</u>	<u>117,153,336</u>	<u>(108,447)</u>	0%
Net assets:				
Invested in capital assets, net of related debt	16,714,883	16,050,260	664,623	4%
Restricted net assets	8,575,318	8,134,464	440,854	5%
Unrestricted net assets	<u>95,966,360</u>	<u>88,421,549</u>	<u>7,544,811</u>	9%
Total liabilities and net assets	<u>\$ 238,301,450</u>	<u>\$ 229,759,609</u>	<u>\$ 8,541,841</u>	4%

As can be seen in Table 1, total assets increased by approximately \$8,542,000 to approximately \$238,301,000 at June 30, 2005, from approximately \$229,760,000 at June 30, 2004. The change in total assets is primarily due to increases in property, plant, and equipment exceeding depreciation expense for the year, and increases in investments, which were funded by the excess of revenues over expenses during fiscal year 2005.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Summary of Revenue, Expenses, and Changes in Net Assets*

The following table presents a summary of the Hospital's revenues and expenses for each of the fiscal years ended June 30, 2005 and 2004:

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

	Years Ended June 30		Dollar	Percent
	2005	2004	Change	Change
<b>Revenue:</b>				
Net patient service revenue	\$ 160,806,228	\$ 147,044,877	\$ 13,761,351	9%
Other	2,916,594	2,476,735	439,859	18%
<b>Total operating revenue</b>	<b>163,722,822</b>	<b>149,521,612</b>	<b>14,201,210</b>	<b>9%</b>
<b>Expenses:</b>				
Salaries and employee benefits	98,817,255	90,729,290	8,087,965	9%
Supplies, contract services, equipment, and fees	35,169,684	31,708,469	3,461,215	11%
Other operating expenses	9,113,793	8,712,624	401,169	5%
Depreciation	10,344,497	9,147,406	1,197,091	13%
Interest	4,558,484	4,579,343	(20,859)	(0)%
<b>Total operating expenses</b>	<b>158,003,713</b>	<b>144,877,132</b>	<b>13,126,581</b>	<b>9%</b>
Operating income	5,719,109	4,644,480	1,074,629	23%
Investment income	2,921,906	1,121,544	1,800,362	161%
Other	9,273	-	9,273	100%
<b>Excess of revenue and investment income over expenses</b>	<b>8,650,288</b>	<b>5,766,024</b>	<b>2,884,264</b>	<b>50%</b>
Net assets – beginning of year	112,606,273	106,840,249	5,766,024	5%
<b>Net assets – end of year</b>	<b>\$ 121,256,561</b>	<b>\$ 112,606,273</b>	<b>\$ 8,650,288</b>	<b>8%</b>



Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Sources of Revenue*

*Operating Revenue*

During fiscal years 2005 and 2004, 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 and patients, or their third-party payors. Reimbursement for the Medicare and Medicaid programs and the 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 fiscal years ended June 30, 2005 and 2004:

**TABLE 3**  
**Payor Mix by Percentage**

	Years Ended June 30	
	2005	2004
Managed care	19%	18%
Medicare	48	49
Medicare HMO	1	1
Medicaid	20	20
Commercial insurance	6	7
Self-pay and other	6	5
Total patient revenues	100%	100%

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Other Revenue*

The following table summarizes other revenue:

**TABLE 4**  
**Other Revenue**

	Years Ended June 30	
	2005	2004
Cafeteria	\$ 1,085,738	\$ 1,010,057
Day care	551,670	520,496
Gift shop	257,817	274,382
Rental income	433,855	378,119
X-ray school income	152,057	136,832
Premier purchasing rebates	233,381	27,535
Miscellaneous	202,076	129,314
Total other revenue	<u>\$ 2,916,594</u>	<u>\$ 2,476,735</u>

*Investment Income*

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 \$2,921,906 and \$1,121,544 during fiscal years 2005 and 2004, respectively.

**Operating and Financial Performance**

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

Overall activity at the Hospital, as measured by patient discharges, improved 3.4% to 15,288 discharges in 2005 from 14,786 discharges in 2004. Patient days decreased 2.8% over the prior year from 82,200 in 2004 to 79,914 in 2005. The average length of stay for all patients (excluding newborns) decreased to 5.2 days in 2005 from 5.6 days in 2004.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

**TABLE 5**  
**Patient and Hospital Statistical Data**

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Admissions:</b>		
Adult and pediatric	12,875	12,419
Newborn and NICU	1,478	1,441
Psychiatric care	404	403
CMR services	587	622
<b>Patient days:</b>		
Adult and pediatric	63,313	63,313
Medicare (included in adult and pediatric)	35,426	36,740
Medicaid (included in adult and pediatric)	13,083	12,725
Newborn and NICU	5,885	6,468
Psychiatric care	5,062	5,583
CMR services	5,654	6,836
Operating room patients	9,367	9,151
Outpatient registrations	79,321	71,386
Emergency room visits	68,462	69,422
<b>Average daily census:</b>		
Adult and pediatric	174	173
Psychiatric care	14	15
CMR services	16	19
<b>Average length of stay (excluding newborn):</b>		
All patients	5.2	5.6
Medicare patients	6.2	6.6
Medicaid patients	4.0	4.0
Psychiatric care	12.4	13.9
CMR services	9.7	10.7
<b>Percentage of total patient days:</b>		
Medicare	56.0%	58.0%
Medicaid	20.7%	20.1%
Home health visits	7,447	8,613
Family medicine clinic	29,691	25,466
Full-time equivalents (FTEs)	1,799	1,743

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

Increases in net patient service revenue primarily were due to volume 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**

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Allowances:		
Provision for bad debts	<b>\$ 20,309,252</b>	\$ 15,206,451
Charity care	<b>7,165,974</b>	6,292,764
Other adjustments	<b>2,170,208</b>	1,671,108
Blue Cross, Louisiana State Employees Group benefits, and other contractual allowances	<b>50,914,319</b>	36,335,296
Medicaid contractual allowances	<b>82,505,251</b>	61,389,482
Medicare contractual allowances	<b>170,006,762</b>	134,735,524
	<b>\$333,071,766</b>	<b>\$255,630,625</b>

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 \$7,166,000 were forgone during 2005, compared to \$6,292,800 in 2004, or a 14% increase from the prior fiscal year.

Salaries expense increased \$4,859,400, or 6%, to \$80,278,600 in 2005 from \$75,419,200 in 2004. As a percentage of net patient service revenue, salary expense was approximately 50% and 51% for the fiscal years ended June 30, 2005 and 2004, respectively. This decrease was primarily due to an increase in net patient service revenue.

Employee benefit expense increased \$3,228,500, or 21%, from prior year. Employee benefit expense represented 23% and 20% of salaries expense in the current and prior fiscal years, respectively. This increase was primarily due to improved employee retirement, life insurance, health insurance, and disability benefits.

Supplies expense increased \$1,943,000, or 8%, from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 16% each year. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

Contract services, equipment, and fees increased \$1,518,000, or 18%, from prior year. This increase was primarily a result of the costs associated with additional maintenance and professional service contracts.

Other operating expenses increased approximately \$403,000 from prior year, which represents 6% of operating revenue, consistent with the prior-year percentage.

Depreciation expense increased approximately \$1,197,000, or 13%, from prior year. This increase is due to major building additions being placed in service.

Interest expense remained relatively flat compared to the prior year.

Total operating expenses increased by \$13,129,000 for the year ended June 30, 2005, 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 year 2005, the Hospital invested \$12,331,000 in a broad range of property, plant, and equipment included in Table 7 below.

**TABLE 7**  
**Property, Plant, and Equipment**

	June 30		Dollar Change	Percent Change
	2005	2004		
Land	\$ 4,214,358	\$ 4,119,404	\$ 94,954	2%
Building and equipment	187,883,509	168,050,183	19,833,326	12%
Subtotal	192,097,867	172,169,587	19,928,280	12%
Less accumulated depreciation	105,060,169	95,597,010	9,463,159	10%
Construction in progress	1,920,204	10,498,445	(8,578,241)	(82%)
Net property, plant, and equipment	<u>\$ 88,957,902</u>	<u>\$ 87,071,022</u>	<u>\$ 1,886,880</u>	2%

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

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.

In Table 8, the Hospital's fiscal year 2006 capital budget projects spending up to \$16,485,000 for capital projects. These projects will be financed from operations and bond proceeds from previous fundings. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

**TABLE 8**  
**Fiscal Year 2006 Capital Budget**

Equipment Purchases	\$ 4,746,900
Hospital Renovations	606,000
NOMC Expansion	6,360,000
NORH Renovations	2,375,000
Access Road	900,000
Resource Center Building	1,497,000
Total	<u>\$ 16,484,900</u>

**Long-Term Debt (Excluding Capital Leases)**

In July 2003, \$70,000,000 of Hospital Revenue bonds were sold, and in August 2003, an additional \$20,000,000 of bonds was sold. The net proceeds of these sales will be used to fund additions, renovations, and improvements to the Hospital's facilities. Additionally, approximately \$47,500,000 of the Series 1994 bonds were repaid by the 2003 issues. Further, in June 2004, \$5,000,000 of Hospital Refunding Bonds were sold. The net proceeds of these sales were used to repay additional amounts of Series 1994 Bonds.

At year-end, the Hospital had \$94,652,000 in short-term and long-term debt. Total debt has decreased by \$1,703,000 in fiscal year 2005, 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 40% of the Hospital's total assets at June 30, 2005, as compared to 42% at June 30, 2004.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Fiscal Year Ended June 30, 2004*

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 during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the financial statements in this report.

**Financial Highlights**

- The Hospital's total assets increased by approximately \$47,934,000, or approximately 26%, primarily due to cash generated by bond issuances.
- During the year, the Hospital's total operating revenue increased approximately \$11,914,000, or 9%, to \$149,522,000 from the prior year while expenses increased \$11,200,000, or 8%, to \$144,877,000. The Hospital had income from operations of \$4,645,000, which is approximately 3% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$3,931,000, or 3% of operating revenue.
- The Hospital received approximately \$2,000,000 and \$1,977,000 in 2004 and 2003, respectively, in intergovernmental transfer funds that were offset against Medicaid contractual adjustments, resulting in an increase in net patient service revenue.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$14,678,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2004 Cost</b>
Multi slice CT Scanner	\$ 1,340,500
Air Handler Construction	232,031
Cysto Unit	245,771
Aquatic Center	725,493
Chemistry Analyzers	370,525
Outpatient Diagnostic Center	5,894,020
Hematology Analyzer	204,500
Pnuematic Tube System	182,079

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

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Net Assets*

A summary of the Hospital's balance sheets are presented in Table 9 below:

**TABLE 9**  
**Condensed Balance Sheets**

	June 30 2004	2003	Dollar Change	Percent Change
Total current assets	\$ 45,525,680	\$ 39,048,567	\$ 6,477,113	17%
Capital assets – net	87,071,022	81,701,787	5,369,235	7%
Other assets, including board- designated investments	<u>97,162,907</u>	61,074,528	36,088,379	59%
Total assets	<u>\$ 229,759,609</u>	\$ 181,824,882	\$ 47,934,727	26%
Current liabilities	\$ 19,576,484	\$ 19,239,732	\$ 336,752	2%
Long-term debt outstanding and other long-term liabilities	<u>97,576,852</u>	55,744,901	41,831,951	75%
Total liabilities	<u>117,153,336</u>	74,984,633	42,168,703	56%
Net assets:				
Invested in capital assets, net of related debt	16,050,260	27,229,911	(11,179,651)	(41)%
Restricted net assets	8,134,464	6,741,359	1,393,105	21%
Unrestricted net assets	<u>88,421,549</u>	72,868,979	15,552,570	21%
Total liabilities and net assets	<u>\$ 229,759,609</u>	\$ 181,824,882	\$ 47,934,727	26%

As can be seen in Table 9, total assets increased by approximately \$47,935,000 to \$229,760,000 in fiscal year 2004, from approximately \$181,825,000 in fiscal year 2003. The change in total net assets is primarily due to the excess of revenues over expenses in fiscal year 2004.



Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Summary of Revenue, Expenses, and Changes in Net Assets*

The following table presents a summary of the Hospital's revenues and expenses for each of the fiscal years ended June 30, 2004 and 2003:

**TABLE 10**  
**Condensed Statements of Revenue, Expenses, and**  
**Changes in Net Assets**

	Year Ended June 30		Dollar Change	Percent Change
	2004	2003		
<b>Revenue:</b>				
Net patient service revenue	\$ 147,044,877	\$ 135,174,144	\$ 11,870,733	9%
Other	2,476,735	2,433,455	43,280	2%
<b>Total operating revenue</b>	<b>149,521,612</b>	<b>137,607,599</b>	<b>11,914,013</b>	<b>9%</b>
<b>Expenses:</b>				
Salaries and employee benefits	90,729,290	83,355,005	7,374,285	9%
Supplies, contract services, equipment, and fees	31,708,469	30,197,246	1,511,223	5%
Other operating expenses	8,712,624	7,307,861	1,404,763	19%
Depreciation	9,147,406	9,240,647	(93,241)	(1)%
Interest	4,579,343	3,575,952	1,003,391	28%
<b>Total operating expenses</b>	<b>144,877,132</b>	<b>133,676,711</b>	<b>11,200,421</b>	<b>8%</b>
<b>Operating income</b>	<b>4,644,480</b>	<b>3,930,888</b>	<b>713,592</b>	<b>18%</b>
<b>Investment income</b>	<b>1,121,544</b>	<b>1,806,577</b>	<b>(685,033)</b>	<b>(38)%</b>
<b>Excess of revenue and investment income over expenses</b>	<b>5,766,024</b>	<b>5,737,465</b>	<b>28,559</b>	<b>0%</b>
<b>Net assets – beginning of year</b>	<b>106,840,249</b>	<b>101,102,784</b>	<b>5,737,465</b>	<b>6%</b>
<b>Net assets – end of year</b>	<b>\$ 112,606,273</b>	<b>\$ 106,840,249</b>	<b>\$ 5,766,024</b>	<b>5%</b>

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

Management's Discussion and Analysis (continued)

*Sources of Revenue*

*Operating Revenue*

During fiscal years 2004 and 2003, the Hospital derived the majority, approximately 98% and 98%, respectively, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established rates and contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance.

Table 11 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2004 and 2003:

**TABLE 11**  
**Payor Mix by Percentage**

	Years Ended June 30	
	2004	2003
Managed care	18%	20%
Medicare	49	47
Medicare HMO	1	1
Medicaid	20	22
Commercial insurance	7	6
Self-pay and other	5	4
Total patient revenues	100%	100%

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

*Other Revenue*

The following table summarizes other revenue:

**TABLE 12**  
**Other Revenue**

	Years Ended June 30	
	2004	2003
Cafeteria	\$ 1,010,057	\$ 917,522
Day care	520,496	505,591
Gift shop	274,382	334,003
Rental income	378,119	459,425
X-ray school income	136,832	135,025
Miscellaneous	156,849	81,889
Total other revenue	<u>\$ 2,476,735</u>	<u>\$ 2,433,455</u>

*Investment Income*

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 \$1,121,544 and \$1,806,577 during fiscal years 2004 and 2003, respectively.

**Operating and Financial Performance**

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2004 and 2003:

Overall activity at the Hospital, as measured by patient discharges, improved 6.11% to 14,786 discharges in 2004 from 13,935 discharges in 2003. Patient days increased 10% over the prior year from 74,926 in 2003 to 82,200 in 2004. The average length of stay for all patients (excluding newborns) increased to 5.56 days in 2004 from 5.38 days in 2003.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

**TABLE 13**  
**Patient and Hospital Statistical Data**

	<b>Years Ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>Admissions:</b>		
Adult and pediatric	12,419	11,420
Newborn and NICU	1,441	1,367
Extended care unit	-	325
Psychiatric care	403	286
CMR services	622	587
<b>Patient days:</b>		
Adult and pediatric	63,313	54,942
Medicare (included in adult and pediatric)	36,740	30,171
Medicaid (included in adult and pediatric)	12,725	11,611
Newborn and NICU	6,468	5,871
Extended care unit	-	4,269
Psychiatric care	5,583	4,032
CMR services	6,836	5,812
Operating room patients	9,151	8,487
Outpatient registrations	71,386	68,320
Emergency room visits	69,422	70,170
<b>Average daily census:</b>		
Adult and pediatric	173	151
Extended care unit	-	12
Psychiatric care	15	11
CMR services	19	16
<b>Average length of stay (excluding newborn):</b>		
All patients	5.6	5.4
Medicare patients	6.6	6.2
Medicaid patients	4.0	3.8
Extended care unit	-	12.7
Psychiatric care	13.9	14.1
CMR services	10.7	10.0
<b>Percentage of total patient days:</b>		
Medicare	58.0%	59.0%
Medicaid	20.1%	20.0%
Home health visits	8,613	9,909
Family medicine clinic	25,466	18,952
Full-time equivalents (FTEs)	1,743	1,689

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

Increases in net patient service revenue primarily were due to volume increases as depicted on the proceeding page, Table 13, Patient and Hospital Statistical Data. While gross patient revenue increased \$66,901,500, or 20%, from prior year due to increased volume and rate increases, net patient service revenue only increased \$11,870,700 due to increases in contractual allowances.

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

**TABLE 14**  
**Allowance Summary**

	<b>Years Ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Allowances:		
Provision for bad debts	\$ 15,206,451	\$ 13,283,408
Charity care	6,292,764	4,106,852
Other adjustments	1,671,108	1,168,873
Blue Cross, Louisiana State Employees Group benefits, and other contractual allowances	36,335,296	31,450,475
Medicaid contractual allowances	61,389,482	47,802,590
Medicare contractual allowances	134,735,524	102,787,697
	<b>\$ 255,630,625</b>	<b>\$ 200,599,895</b>

As a result of increase in revenues, net days in accounts receivable increased from 63.6 days to 67.1 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$6,292,800 were forgone during 2004, compared to \$4,106,900 in 2003, or a 53% increase from the prior fiscal year.

Salaries expense increased \$5,042,600, or 7%, to \$75,419,200 in 2004 from \$70,376,500 in 2003. As a percentage of net patient service revenue, salary expense was approximately 51% and 52% for the fiscal years ended June 30, 2004 and 2003, respectively. This increase was primarily due to an increase in volume.

Employee benefit expense increased \$2,331,600, or 18%, from prior year. Employee benefit expense represented 20% and 18% of salaries expense in the current and prior fiscal years, respectively. This increase was primarily due to an increase in employee medical insurance costs.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

Supplies expense increased \$2,519,800, or 12%, from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 16% each year. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Contract services, equipment, and fees decreased \$1,008,600, or 11%, from prior year. This decrease was primarily a result of the costs associated with the termination of the Hospital's management contract.

Other operating expenses increased approximately \$1,404,800 from prior year, which represents 6% of operating revenue, consistent with the prior-year percentage.

Depreciation expense remained relatively flat compared to the prior year.

Interest expense increased \$1,003,400, or 28%, from prior year. This increase is primarily due to additional interest on the 2003 bonds issued during the current fiscal year.

Total operating expenses increased by \$11,200,000 for the year ended June 30, 2004, 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 are also included in this amount. Total investment income decreased from the prior year due primarily to changes in interest rates earned on investments.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

**Capital Assets**

During fiscal year 2004, the Hospital invested \$14,678,000 in a broad range of property, plant, and equipment included in Table 15 below:

**TABLE 15**  
**Property, Plant, and Equipment**

	June 30		Dollar	Percent
	2004	2003	Change	Change
Land	\$ 4,119,404	\$ 4,119,404	\$ —	0%
Building and equipment	<u>168,050,183</u>	161,930,060	6,120,123	4%
Subtotal	<u>172,169,587</u>	166,049,464	6,120,123	4%
Less accumulated depreciation	95,597,010	86,749,918	8,847,092	10%
Construction in progress	<u>10,498,445</u>	2,402,241	8,096,204	337%
Net property, plant, and equipment	<u>\$ 87,071,022</u>	<u>\$ 81,701,787</u>	<u>\$ 5,369,235</u>	7%

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.

**Long-Term Debt (Excluding Capital Leases)**

In July 2003, \$70,000,000 of Hospital Revenue bonds were sold, and in August 2003, an additional \$20,000,000 of bonds were sold. The net proceeds of these sales will be used to fund additions, renovations, and improvements to the Hospital's facilities. Additionally, approximately \$47,500,000 of the Series 1994 bonds were repaid by the 2003 issues. Further, in June 2004, \$5,000,000 of Hospital Refunding Bonds were sold. The net proceeds of these sales were used to repay additional amounts of Series 1994 Bonds.

At the end of fiscal year 2004, the Hospital had \$96,238,000 in short-term and long-term debt. Total debt has increased by \$41,966,000 in fiscal year 2004, which was due to the bond issuances. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 48% of the Hospital's total assets at June 30, 2004, as compared to 30% at June 30, 2003.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Management's Discussion and Analysis (continued)

**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.



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

Balance Sheets

	June 30	
	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,671,791	\$ 2,801,206
Short-term investments	1,000,000	-
Patient accounts receivable, net of estimated uncollectibles of \$5,326,000 in 2005 and \$9,633,000 in 2004	31,430,773	33,502,857
Estimated third-party payor settlements – Medicare and Medicaid	-	1,801,330
Current portion of designated cash and investments	2,026,015	2,255,380
Inventories	2,637,435	2,506,928
Prepaid expenses and other current assets	3,750,452	2,657,979
Total current assets	44,516,466	45,525,680
Designated cash and investments:		
Under bond indenture agreement held by trustee	30,967,099	33,449,912
By board for plant and equipment additions and replacements	66,184,836	55,804,482
By board for self-insurance claims	1,599,173	1,568,022
	98,751,108	90,822,416
Less current portion	2,026,015	2,255,380
Noncurrent designated cash and investments	96,725,093	88,567,036
Property, plant, and equipment:		
Land	4,214,358	4,119,404
Buildings and equipment	187,883,509	168,050,183
Construction in progress	1,920,204	10,498,445
	194,018,071	182,668,032
Less accumulated depreciation	105,060,169	95,597,010
Property, plant, and equipment, net	88,957,902	87,071,022
Unamortized financing costs, net	4,761,207	5,194,895
Note receivable	402,410	424,134
Deferred compensation plan investments	2,938,372	2,976,842
Total assets	\$238,301,450	\$229,759,609

	June 30	
	2005	2004
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 7,479,130	\$ 8,720,334
Accrued salaries and payroll-related costs	4,783,506	3,717,707
Accrued interest payable	1,598,068	1,505,429
Accrued self-insurance claims	3,871,408	3,876,834
Estimated third-party payor settlements – Medicare and Medicaid	1,722,126	–
Current portion of capital lease obligations	–	116,345
Current portion of long-term debt	1,683,537	1,639,835
Total current liabilities	<u>21,137,775</u>	<u>19,576,484</u>
Capital lease obligations, excluding current portion	–	1,354
Long-term debt, net of unamortized bond premium of \$190,000 in 2005 and \$202,000 in 2004, excluding current portion	92,968,742	94,598,656
Deferred compensation plan obligations	2,938,372	2,976,842
Total liabilities	<u>117,044,889</u>	<u>117,153,336</u>
Net assets:		
Invested in capital assets, net of related debt	16,714,883	16,050,260
Restricted net assets	8,575,318	8,134,464
Unrestricted net assets	95,966,360	88,421,549
Total net assets	<u>121,256,561</u>	<u>112,606,273</u>
Total liabilities and net assets	<u><u>\$238,301,450</u></u>	<u><u>\$229,759,609</u></u>

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Statements of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2005	2004
Revenue:		
Net patient service revenue	\$ 160,806,228	\$ 147,044,877
Other	2,916,594	2,476,735
Total operating revenue	163,722,822	149,521,612
Expenses:		
Salaries	80,278,609	75,419,181
Employee benefits	18,538,646	15,310,109
Supplies	25,361,424	23,418,307
Contract services, equipment, and fees	9,808,260	8,290,162
Other operating expenses	9,113,793	8,712,624
Depreciation	10,344,497	9,147,406
Interest	4,558,484	4,579,343
Total operating expenses	158,003,713	144,877,132
Operating revenue in excess of operating expenses	5,719,109	4,644,480
Investment income (loss):		
Investment income	2,752,472	1,692,807
Unrealized (loss) gain on investments	169,434	(631,466)
Realized gain on investments	-	60,203
Total investment income	2,921,906	1,121,544
Other	9,273	-
Excess of revenue and investment income over expenses	8,650,288	5,766,024
Net assets – beginning of year	112,606,273	106,840,249
Net assets – end of year	\$ 121,256,561	\$ 112,606,273

*See accompanying notes.*

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Statements of Cash Flows

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities</b>		
Revenue collected	\$ 169,178,437	\$ 141,838,997
Cash payments to employees and for employee-related costs	(98,053,882)	(92,355,324)
Cash payments for supplies, services, and other operating expenses	(46,428,937)	(38,517,631)
Net cash provided by operating activities	24,695,618	10,966,042
<b>Capital and related financing activities</b>		
Purchases of property, plant, and equipment	(12,330,687)	(14,678,060)
Proceeds from disposals of assets	79,074	101,278
Principal payments on long-term debt incurred for capital purposes	(1,646,746)	(53,952,562)
Principal payments on capital lease obligations	(117,699)	(82,149)
Interest payments on long-term debt and capital lease obligations	(4,100,333)	(4,092,520)
Debt financing costs	56,115	(3,382,844)
Proceeds from issuance of long-term debt	72,595	95,128,802
Net cash provided by (used in) capital and related financing activities	(17,987,681)	19,041,945
<b>Investing activities</b>		
Investment income	2,921,906	1,121,544
Change in short-term investments	(1,000,000)	700,000
Purchases of designated cash and investments	(29,958,083)	(106,830,745)
Proceeds from sales and maturities of designated cash and investments	22,198,825	74,010,101
Net cash used in investing activities	(5,837,352)	(30,999,100)
Net change in cash	870,585	(991,113)
Cash and cash equivalents at beginning of year	2,801,206	3,792,319
Cash and cash equivalents at end of year	\$ 3,671,791	\$ 2,801,206

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Statements of Cash Flows (continued)

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Reconciliation of income from operations to net cash provided by operating activities</b>		
Operating revenue in excess of operating expenses	\$ 5,719,109	\$ 4,644,480
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation	10,344,497	9,147,406
Unrealized loss (gain) on investments	(169,434)	511,024
Realized gain on sale of investments	-	(60,204)
Bad debt expense	20,309,252	15,216,335
Net loss on disposals of assets	20,236	60,141
Amortization of financing costs	377,573	395,284
Amortization of premium on long-term debt	(12,061)	(12,064)
Interest expense on long-term debt and capital lease obligations	4,192,972	4,196,123
Other	9,273	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(18,237,168)	(20,061,348)
Inventories, prepaid expenses, and other assets	(1,201,256)	(1,222,589)
Estimated third-party payor settlements	3,523,456	(3,346,063)
Accounts payable, accrued salaries, and payroll-related costs and other accrued expenses	(180,831)	1,497,517
<b>Net cash provided by operating activities</b>	<b>\$ 24,695,618</b>	<b>\$ 10,966,042</b>

*See accompanying notes.*

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements

June 30, 2005

**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, a 269-bed acute-care hospital, and North Oaks Rehabilitation Hospital, a 27-bed hospital that provides rehabilitation services. The hospitals are located on two campuses in the city of Hammond, Louisiana. 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 highly liquid instruments with an original maturity of three months or less, excluding amounts designated by the board of commissioners or other arrangements under trust agreements.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**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.

**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 reacquisition price of the Series 1994 Bonds and the net carrying amount were 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.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in this component of net assets. Rather, that portion of debt should be included in the same net asset component as the unspent proceeds. At June 30, 2005, approximately \$22,409,000 of unspent bond proceeds was included in unrestricted net 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 health care services are included in operating revenue or expenses. All peripheral transactions are reported as a component of nonoperating income.



Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**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.

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 a decrease to net patient service revenue of \$2,200,000 in 2005 and a decrease of \$405,000 in 2004. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or might lack adequate insurance. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risks by regularly reviewing its accounts and contracts and by providing appropriate allowances.

**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 and is reimbursed for home health services under the Prospective Payment System (PPS) based on episodes of care adjusted by a case mix adjuster and the applicable geographic wage index.*

Medicare bad debts and Medicaid 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. Retroactive cost

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

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.

During the years ended June 30, 2005 and 2004, approximately 69% and 70%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

**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 their current-year presentation.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**2. Cash, Investments, and Designated Cash and Investments**

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

	Maturity	Fair Value
<b>2005</b>		
Securities type:		
U.S. backed government obligations	2006-2010	\$ 9,563,247
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	-	93,859,652
		\$ 103,422,899
<b>2004</b>		
Securities type:		
Mutual funds and U.S. backed government obligations	2005-2009	\$ 3,486,374
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	-	90,137,248
		\$ 93,623,622

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 composition of asset allocation and specific allocation of funds is outlined below, and the result is that maturity terms are staggered.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

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

	<b>Desired % of Range of Overall Portfolio</b>	<b>Maximum % of Overall Portfolio</b>
<b>Type of Investment:</b>		
Certificates of Deposit	0% to 100%	100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%	100%
Treasury Funds	0% to 100%	100%
Bonds of Notes – issued or guaranteed by federal agencies, or government instrumentalities (which are federally sponsored)	0% to 25%	25%
Mutual Funds (100% Government-Backed)	0% to 25%	25%
<b>Term of Investments:</b>		
0 to 6 months	0% to 100%	100%
6 months to 1 year	0% to 100%	100%
1 year to 5.5 years	0% to 70%	70%
5.5 years to 10 years	0% to 30%	30%
Greater than 10 years, but less than 20 years	0% to 30%	30%

During the years ended June 30, 2005 and 2004, the Hospital invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies.

Trustee-held investments consist primarily of funds invested through a trustee in qualifying investments as specified in the applicable revenue bond resolution. The 1994, 2003A and B, and 2004 Bond Agreements require the Hospital to maintain a Debt Service Reserve Fund at specified levels, which is to be used by the trustee to fund payments of principal and interest to the bondholders (see Note 4).

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**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 receivables from patients and third-party payors at June 30, 2005 and 2004, was as follows:

	2005	2004
Medicare 65	1%	1%
Medicare	25	26
Medicaid	10	9
Managed care payors	21	16
Other third-party payors	18	14
Patients	25	34
	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, 2005 and 2004, the funds were deposited as follows:

	2005	2004
Bond principal account	\$ 690,597	\$ 639,756
Bond interest account	1,681,967	1,615,540
Bond construction account	22,409,261	25,333,012
Reserve accounts and other	6,185,275	5,861,604
	\$30,967,100	\$33,449,912

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, 2005 and 2004.

Hospital Service District No. 1 of the Parish of Tangipahoa,  
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Notes to Basic Financial Statements (continued)

**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 loaned 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 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 three successive ten-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, 2005:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
	<i>(In Thousands)</i>				
Land and land improvements	\$ 4,119	\$ 101	\$ 6	\$ -	\$ 4,214
Buildings and fixed equipment	106,041	317	535	11,913	117,736
Equipment	62,009	7,410	440	1,168	70,147
Construction in progress	10,499	4,502	-	(13,081)	1,920
	182,668	12,330	981	-	194,017
Less accumulated depreciation	95,597	10,344	881	-	105,060
Property, plant, and equipment, net	\$ 87,071	\$ 1,986	\$ 100	\$ -	\$ 88,957

**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 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 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.

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

Notes to Basic Financial Statements (continued)

**7. Employee Retirement Plan (continued)**

Retirement expense, included in employee benefit expense, was approximately \$1,675,000 in 2005 and \$1,311,000 in 2004, 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 Internal Revenue Code. 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 \$2,938,372 and \$2,976,842 for the fair market value of the plans' combined assets as of June 30, 2005 and 2004, respectively.

**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 \$1,627,000 and \$1,757,000 as of June 30, 2005 and 2004, 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.

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

Notes to Basic Financial Statements (continued)

**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 \$2,244,000 and \$2,120,000 at June 30, 2005 and 2004, respectively, for such 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
2005	\$3,877,000	\$ 10,579,000	\$ 10,585,000	\$ 3,871,000
2004	\$3,168,000	\$ 9,012,000	\$ 8,303,000	\$ 3,877,000

**9. Long-Term Debt**

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

	June 30	
	2005	2004
Hospital Revenue Bonds, Series 1994	\$ 350,000	\$ 1,215,000
Hospital Revenue Bonds, Series 2003A	69,030,000	69,700,000
Hospital Revenue Bonds, Series 2003B	20,000,000	20,000,000
Hospital Revenue Bonds, Series 2004	4,920,000	5,000,000
Other	162,089	121,240
Total	94,462,089	96,036,240
Plus: unamortized bond premium on 2005 and 2004 bonds	190,190	202,251
	94,652,279	96,238,491
Less: current portion	1,683,537	1,639,835
Long-term debt, less current maturities	\$92,968,742	\$94,598,656



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

Notes to Basic Financial Statements (continued)

**9. Long-Term Debt (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 2004. Payments of the scheduled principal and interest on the 1994 Revenue Bonds are insured by AMBAC Indemnity Corporation.

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 \$680,000 in 2006 to \$2,895,000 in 2018 and bear interest at rates ranging from 2.50% 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, 2005.

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, 2005.

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 \$610,000 in 2006 to \$1,145,000 in 2010, bearing interest at 3.34%.

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

Notes to Basic Financial Statements (continued)

**9. Long-Term Debt (continued)**

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2005, were as follows:

	<b>Principal</b>	<b>Interest</b>
2006	\$ 1,568,987	\$ 3,801,719
2007	1,740,962	3,743,999
2008	1,796,530	3,690,529
2009	1,858,521	3,618,857
2010	1,915,000	3,544,675
2011 – 2015	11,245,000	16,323,706
2016 – 2020	14,480,000	13,084,111
2021 – 2025	18,515,000	9,062,502
2026 – 2030	23,805,000	3,941,739
2031 – 2033	17,375,000	277,194
	<b>\$ 94,300,000</b>	<b>\$ 61,089,031</b>

**10. Operating Lease Obligations**

The Hospital has entered into various cancelable operating leases for equipment. Operating lease expense was approximately \$591,000 and \$605,000 for the years ended June 30, 2005 and 2004, respectively.

**11. 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, such amounts are not recorded as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone, \$7,166,000 in 2005 and \$6,292,800 in 2004, for services and supplies furnished under its charity care policy.

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

Notes to Basic Financial Statements (continued)

**12. Governmental Regulations**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care 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 health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care 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 \$5,520,000 at June 30, 2005, and \$9,334,000 at June 30, 2004. These commitments include expansion of North Oaks Medical Center, renovation of North Oaks Rehabilitation Hospital, and various capital equipment purchases.

**Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
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 Medical Center) (the Hospital), as of and for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters of the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

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

*Ernst + Young LLP*

October 25, 2005

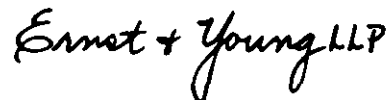
## Independent Auditors' Report on Compliance With Revenue Bond Provisions

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 Medical Center) (the Hospital), as of June 30, 2005, 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 October 25, 2005. 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 \$95,000,000 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, 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, the bond trustee, and is not intended to be and should not be used by anyone other than these specified parties.



October 25, 2005

Independent Accountants' Review 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

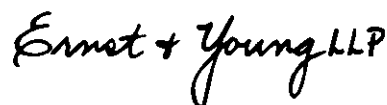
We have reviewed the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense for the year ended June 30, 2005, of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Medical Center) (the Hospital), in accordance with *Statements on Standards for Accounting and Review Services*, issued by the American Institute of Certified Public Accountants. All information included in this schedule is the representation of the management of the Hospital.

A review is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 \$95,000,000 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.

Based on our review, 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, the bond trustee, and is not intended to be and should not be used by anyone other than these specified parties.



October 25, 2005

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

Year Ended June 30, 2005

Debt service coverage ratio:	
Net income available for debt service:	
Excess of revenue over expenses	\$ 8,650,288
Add:	
Depreciation	10,344,497
Interest expense	4,558,484
Net income available for debt service	<u>\$ 23,553,269</u>
Maximum annual debt service	<u>\$ 5,753,066</u>
Debt service coverage ratio	<u>4.09</u>
Minimum required debt service coverage ratio per Section 501	<u>1.20</u>
Cash on hand:	
Cash on hand*	<u>\$ 72,455,800</u>
Average daily expense:	
Operating expenses	\$ 158,003,713
Less:	
Depreciation	10,344,497
	<u>\$ 147,659,216</u>
Average daily expense (based on 365 days)	<u>\$ 404,546</u>
Days cash on hand	<u>179</u>
Minimum required days cash on hand per Section 718	<u>45</u>

\* 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 independent accountants' review report and 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

Year Ended June 30, 2005

**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 \$95,000,000 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.

*See independent accountants' review report.*