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ARTHUR ANDERSEN LLP

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HOSPITAL SERVICE DISTRICT NO. 1
OF TANGIPAHOA PARISH, LOUISIANA

FINANCIAL STATEMENTS
AS OF JUNE 30, 1999 AND 1998
TOGETHER WITH AUDITORS' REPORT

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

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FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Commissioners of
Hospital Service District No. 1 of
Tangipahoa Parish, Louisiana:

We have audited the accompanying balance sheets of Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital or the District) as of June 30, 1999, and the related statements of revenue, expenses and fund balance and cash flows for the year 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 audit. The financial statements of the Hospital as of June 30, 1998 were audited by other auditors whose report dated September 25, 1998, expressed an unqualified opinion on those statements.

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

The Year 2000 supplementary information in Note 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the Hospital is or will become Year 2000 compliant, that the Hospital's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will be Year 2000 compliant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have issued our report dated September 13, 1999, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

Arthur Andersen LLP

New Orleans, Louisiana,
September 13, 1999

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

BALANCE SHEETS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	June 30	
	1999	1998
CURRENT ASSETS:		
Cash	$ 4,714,893	$ 2,336,530
Patient accounts receivable, net of estimated uncollectibles of $6,058,000 in 1999 and $6,024,000 in 1998	21,980,118	20,351,183
Assets whose use is limited required for current liabilities, self-insurance claims and debt service	2,775,594	3,279,105
Inventories	530,744	225,609
Prepaid expenses and other current assets	1,149,038	1,467,489
Total current assets	31,150,387	27,659,916
ASSETS WHOSE USE IS LIMITED:		
Under bond indenture agreement held by trustee:		
Revenue bonds, Series 1994 and 1990	9,501,435	15,790,084
By board for plant and equipment additions and replacements	42,255,693	32,755,324
By board for self-insurance claims	613,641	623,314
	52,370,769	49,168,722
Less assets whose use is limited required for current liabilities	2,775,594	3,279,105
NONCURRENT ASSETS WHOSE USE IS LIMITED	49,595,175	45,889,617
NOTE RECEIVABLE	525,240	543,931
DEFERRED COMPENSATION PLAN INVESTMENTS	2,205,320	1,524,831
UNAMORTIZED DEBT ISSUANCE COSTS, net	1,808,465	1,924,002
OTHER ASSETS	-	182,455
PROPERTY, PLANT AND EQUIPMENT:		
Land	4,119,404	4,119,404
Buildings and equipment	128,326,984	123,582,758
Construction in progress	6,462,379	1,541,674
	138,908,767	129,243,836
Less accumulated depreciation	53,566,522	44,950,213
	85,342,245	84,293,623
	$ 170,626,832	$162,018,375

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

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

BALANCE SHEETS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	June 30	
	1999	1998
CURRENT LIABILITIES:		
Accounts payable	$ 5,946,017	$ 6,622,716
Accrued salaries and payroll-related costs	3,443,326	3,309,147
Accrued interest payable	1,506,911	1,528,980
Accrued self-insurance claims	4,458,172	2,001,534
Estimated third-party payor settlements - Medicare and Medicaid	9,377,760	8,368,466
Current portion of capital lease obligations	807,328	815,936
Current portion of long-term debt	1,125,000	1,070,000
Total current liabilities	26,664,514	23,716,779
CAPITAL LEASE OBLIGATIONS, excluding current portion	1,668,090	2,484,458
DEFERRED COMPENSATION PLAN	2,205,320	1,524,831
LONG-TERM DEBT, net of unamortized bond discount of $779,023 in 1999 and $828,793 in 1998, excluding current portion	57,810,977	58,886,207
Total liabilities	88,348,901	86,612,275
FUND BALANCE	82,277,931	75,406,100
	$ 170,626,832	$162,018,375

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

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

STATEMENTS OF REVENUE, EXPENSES AND FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	June 30	
	1999	1998
NET PATIENT SERVICE REVENUE	$ 110,087,063	$108,272,433
OTHER REVENUE	4,291,575	3,683,425
Total revenue	114,378,638	111,955,858
EXPENSES:		
Routine services	15,371,648	18,216,041
Ancillary services	41,664,943	42,867,014
Household and property	4,445,067	4,857,533
Dietary and cafeteria	2,544,318	2,263,431
Administration and general		
Employee benefits	11,234,987	10,179,598
Insurance - legal and risk management	3,366,242	1,560,080
Other administration and general	12,209,018	12,066,646
Provision for bad debts	4,244,226	3,824,201
Depreciation	8,694,824	5,919,911
Interest	3,633,729	1,426,999
Total expenses	107,409,002	103,181,454
REVENUE IN EXCESS OF EXPENSES BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	6,969,636	8,774,404
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(97,805)	-
REVENUE IN EXCESS OF EXPENSES AFTER CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	6,871,831	8,774,404
FUND BALANCE AT BEGINNING OF YEAR	75,406,100	66,631,696
FUND BALANCE AT END OF YEAR	$ 82,277,931	$75,406,100

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

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	June 30	
	1999	1998
OPERATING ACTIVITIES:		
Revenue in excess of expenses	$ 6,871,831	$ 8,774,404
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Depreciation	8,694,824	5,919,911
Net loss (gain) on disposals of assets	1,251	(22,171)
Interest income	(2,496,088)	(1,841,698)
Interest expense	3,925,864	1,426,999
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,628,935)	(1,857,533)
Inventories, prepaid expenses and other current assets	13,316	(206,349)
Estimated third-party payor settlements - Medicare and Medicaid	1,009,294	2,123,443
Accounts payable, accrued salaries and payroll related costs, and other accrued expenses	1,892,049	669,221
Net cash provided by operating activities	18,283,406	14,986,227
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(10,081,650)	(19,569,744)
Proceeds from disposals of assets	206,114	50,510
Principal payments on long-term debt	(1,070,000)	(1,015,000)
Principal payments on capital lease obligations	(824,976)	(528,736)
Interest payments on long-term debt and capital lease obligations	(3,873,463)	(3,862,815)
Change in other assets, net	182,455	85,233
Net cash used in capital and related financing activities	(15,461,520)	(24,840,552)
INVESTING ACTIVITIES:		
Interest earned	2,739,833	2,957,724
(Increase) decrease in assets whose use is limited:		
Under bond indenture agreement	6,288,649	9,427,264
By board for plant and equipment	(9,500,369)	(3,966,335)
By board for self-insurance claims	9,673	40,516
Other	18,691	17,906
Net cash provided by investing activities	(443,523)	8,477,075
Net increase (decrease) in cash	2,378,363	(1,377,250)
CASH AT BEGINNING OF YEAR	2,336,530	3,713,780
CASH AT END OF YEAR	$ 4,714,893	$ 2,336,530

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

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1999 AND 1998

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital or the District) is a nonprofit public corporation organized under powers granted to parish police juries by Chapter 10, title 45 of the Louisiana Revised Statutes of 1950. All corporate powers are vested in the board of commissioners appointed by the Tangipahoa Parish Police Jury. The District owns and operates North Oaks Medical Center, a 205-bed acute care hospital, and North Oaks Rehabilitation Hospital, a 45-bed hospital which provides rehabilitation and skilled nursing services. The Hospitals are located on two campuses in the city of Hammond, Louisiana. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code and from state income taxes.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Basis of Accounting

The Hospital uses the accrual basis of accounting for proprietary funds under Governmental Accounting Standards.

Inventories

Inventories are valued at the latest invoice price which approximates lower of cost (first-in, first-out method) or 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.

Debt Issuance Expense

The Hospital recorded as an asset the costs incurred in connection with the issuance of the 1994 Revenue Bonds. These costs are being amortized using the interest method over the life of the bond issue. The amortization is included in interest expense in the statement of revenue, expenses and fund balance.

Investments

All investments are stated at fair market value. Differences between the cost and the fair market value of the investments are included in investment income.

Self-Insurance Claims

Accrued self-insurance claims represent the Hospital's accrual for self-insured professional liability, workers' compensation claims and employee health claims.

Net Patient Service Revenue and Related Receivables

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or may 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 paid under the Medicare Prospective Payment System (PPS) which pays the Hospital a predetermined amount for Medicare inpatient services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient and based on RUG categories for skilled nursing facilities. Medicaid inpatient services are paid on a prospective per diem system.

Medicare outpatient services, psychiatric care, home health services, bad debts, rehabilitation services, and Medicaid outpatient services are 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 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.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Organizational Costs

The Hospital elected to adopt American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Cost of Start-up Activities," in its fiscal year ending June 30, 1999 and, accordingly, expensed previously capitalized startup costs. The impact of adopting this statement was a reduction in unrestricted fund balance of $97,805 which is reflected as the cumulative effect of a change in accounting principle in the Statement of Revenues, Expenses, and Fund Balance for the year ended June 30, 1999.

2. CASH AND INVESTMENTS:

Louisiana state statutes authorize the Hospital to invest in obligations of the United States Government other Federal agencies, certificates of deposit of national banks located in Louisiana or banks organized under the laws of Louisiana, any Federally insured investment, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories of Standard & Poor's Corporation or Moody's Investors Services, or in mutual or trust institutions which are registered with the Securities Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of securities of the United States Government or its agencies. Louisiana State statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's bank balances of deposits at June 30, 1999 and 1998, which are included in cash and assets whose use is limited on the balance sheets, were entirely insured or collateralized with securities held by an agent for the pledging bank in the Hospital's name.

At June 30, 1999 and 1998, the Hospital had invested $51,757,128 and $48,545,408, respectively, in U. S. Government obligations and money market accounts whose underlying investments consisted solely of securities of the U. S. Government or its agencies, which are held by a trustee or an agent of the Hospital in the Hospital's name. As of June 30, 1999 and 1998 the investments are recorded at market value and, in assets whose use is limited on the balance sheet.

3. HEALTH INSURANCE PROGRAM REIMBURSEMENT:

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended June 30, 1999 and 1998, approximately 56% and 59%, respectively, of the Hospital's patient service charges were furnished to Medicare and Medicaid program beneficiaries.

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. Estimated settlements for the years through June 30, 1995 have been audited or reviewed by program representatives. No significant differences are anticipated between the estimated settlements recorded and the final settlements expected to be determined by program representatives.

4. 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 reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone ($5,841,000 in 1999 and $5,064,000 in 1998) for services and supplies furnished under its charity care policy.

5. ASSETS WHOSE USE IS LIMITED:

The terms of the Hospital's 1994 and 1990 Revenue Bonds 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 Bond Resolution. As of June 30, 1999 and 1998, the funds were deposited as follows:

	1999	1998
Bond debt service accounts	$ 2,087,853	$ 2,562,111
Construction account	2,579,297	8,333,728
Reserve accounts	4,834,285	4,894,245
	$ 9,501,435	$15,790,084

The Hospital board of commissioners has designated Hospital funds to be used for future plant and equipment additions, separate and apart from the expansion program, and to fund self-insurance claims. These funds, included in assets whose use is limited, were invested in certificates of deposit, U. S. Government obligations and money market funds at June 30, 1999 and 1998.

6. 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 $680,331 to the Foundation to construct the facility on the Hospital's campus. The note receivable from the Foundation 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 3 successive 10-year renewal options.

7. EMPLOYEE RETIREMENT PLANS:

Defined Contribution Plan

The Hospital has a defined contribution plan which 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 2% of the salaries of eligible employees while 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 contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59-1/2, severe financial hardship, or death.

Retirement expense included in administration and general expense on the statement of revenue, expenses and fund balance was $494,000 in fiscal year 1999 and $465,000 in fiscal year 1998, representing the required contributions in both years. Employee contributions were $1,099,000 in 1999, representing 4.44% of total covered payroll. Total payroll and covered payroll were $50,741,759 and $24,716,438, respectively, for the year ended June 30, 1999. Total payroll and covered payroll were $50,498,687 and $23,225,564, respectively for the year ended June 30, 1998.

Deferred Compensation Plans

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (Statement 32) requires governments to report Section 457 plan assets and a corresponding liability in their financial statements if they meet certain criteria and are considered fiduciary funds. The Hospital has two deferred compensation plans which meet the criteria outlined in Statement 32. Accordingly, the Hospital has recorded an asset and a corresponding liability of $2,205,320 and $1,524,831and for the fair market value of the plan assets as of June 30, 1999 and 1998, 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.

Prior to July 1, 1993, the Hospital was self-insured for medical malpractice on a claims-made basis for individual claims up to $100,000. Effective July 1, 1993, the Hospital subscribed to the Louisiana Hospital Association (LHA) Insurance Trust Fund for medical malpractice coverage up to $100,000. On November 1, 1997, the Hospital returned to being self-insured for the first $100,000 of professional liability claims. From July 1, 1993 to November 1, 1997, the Hospital was insured by the LHA Trust Fund for general liability claims. Subsequent to November 1, 1997, the Hospital has maintained a funded self-insured program against general liability claims and purchased excess liability coverage with $1,000,000 self retention.

The Hospital is involved in other 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. As of June 30, 1999, the Hospital has accrued $1,934,000 for the estimated loss and litigation 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 at June 30, 1999 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 through June 30, 1999. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, however, an accrual has been made for these claims.

The Hospital is self-insured for workers' compensation up to $225,000 per claim, and employee health up to $100,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital purchased commercial insurance which provides coverages for workers' compensation and employee health claims in excess of the self-insured limits. The Hospital had accrued $1,613,000 at June 30, 1999 ($1,051,000 at June 30, 1998) for such claims.

9. CAPITAL LEASE OBLIGATIONS:

The Hospital has entered into capital lease obligations for radiology, CT scan, MRI and telephone equipment. Future minimum lease payments, by year and in the aggregate, under these capital lease obligations consisted of the following at June 30, 1999:

2000	$ 978,092
2001	772,566
2002	772,667
2003	316,922
Total minimum lease payments	2,840,247
Less amount representing imputed interest	364,829
Present value of net minimum lease payments (including $807,328 classified as current)	$ 2,475,418

The cost of leased assets included in equipment totaled $4,748,910 in 1999 and 1998 and accumulated amortization was $2,375,596 and $1,571,932 at June 30, 1999 and 1998, respectively. The related equipment collateralizes the capital lease obligations.

The Hospital has entered into various cancelable operating leases for equipment usage. Operating lease expense was approximately $209,000 and $1,108,000 for the years ended June 30, 1999 and 1998, respectively.

10. LONG-TERM DEBT:

The Hospital's long-term debt as of June 30, 1999 and 1998 consisted of bonds payable as follows:

	1999	1998
Hospital Revenue Bonds, Series 1994	$ 59,715,000	$ 60,785,000
Less unamortized bond discount	779,023	828,793
	58,935,977	59,956,207
Less current portion	1,125,000	1,070,000
	$ 57,810,977	$ 58,886,207

On July 5, 1994, the District issued $61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The proceeds of the Series 1994 bonds, along with other available funds were used to advance refund $10,015,000 of the Series 1990 bonds, fund certain additions, renovation and improvements to the Hospital and reimburse the Hospital for the cost of previous property, plant and equipment acquisitions. The Series 1994 Bonds consist of $16,190,000 of serial bonds and $45,345,000 of term bonds. The serial bonds mature annually in amounts ranging from $50,000 at February 1, 1995 to $1,815,000 at February 1, 2009 and bear interest rates ranging from 3.80% to 5.95%. The term bonds consist of $10,855,000 due February 1, 2014 bearing interest at 6.125% and $34,490,000 due February 1, 2024 bearing interest at 6.250%. The term bonds are subject to mandatory sinking fund redemption prior to maturity at par in amounts ranging from $1,920,000 at February 1, 2010 to $4,465,000 at February 1, 2024. Payments of the scheduled principal and interest on the 1994 Revenue Bonds are insured by AMBAC Indemnity Corporation. 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 capitalized interest cost of $90,000 and $1,463,000, during the years ended June 30, 1999 and 1998, respectively, as part of the expansion project.

As of June 30, 1999, approximately $13,500,000 of the Series 1990 Bonds are technically outstanding although they are considered to be defeased as a result of the transactions outlined above.

The Series 1994 bonds scheduled to mature for the next five fiscal years ending June 30 are 2000 - $1,125,000; 2001 - $1,180,000; 2002 - $1,240,000; 2003 - $1,310,000; 2004 - $1,375,000 and $53,485,000 thereafter.

11. COMMITMENTS:

The Hospital has incurred $4,300,000 related to the renovation of the former hospital building in connection with the 1994 Bond Issue. The renovations are expected to be completed in September 1999 at an estimated additional cost of approximately $6,480,000.

12. CONCENTRATIONS OF CREDIT RISK:

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 1999 and 1998 was as follows:

	1999	1999
Medicare	28.4%	31.9%
Medicaid	7.0	7.2
Managed Care	31.6	30.2
Other third-party payors	19.7	21.1
Patients	13.3	9.6
	100.0%	100.0%

13. IMPACT OF YEAR 2000 COMPUTER ISSUES (UNAUDITED):

The Year 2000 issue results from certain computer programs being written using two digits rather than four to define the applicable year. The Hospital's computer programs and certain computer aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment. The Hospital believes that with modifications to existing software and hardware and conversions to new software and hardware which are expected to be completed before the end of 1999, the Year 2000 issue will not pose significant operational problems for its computer systems. However, in the event that such modifications and conversions are not made, or are not completed timely or are not effective, the Hospital is prepared with contingency plans to ensure the necessary operations and delivery of patient care will continue. The Year 2000 issue could have a material financial impact on the operations of the Hospital.

The Hospital has initiated a Hospital-wide program to prepare its computer systems and applications and medical equipment for the year 2000. The Hospital expects to incur internal staff costs as well as external consulting and other expenses related to infrastructure and facility enhancements necessary to prepare the systems for the year 2000. However, there can be no assurance that the systems of other companies, on which the Hospital's systems rely, will be timely converted or that any such failure to convert by another company (such as third-party payors) would not have an adverse effect on the Hospital's systems.

14. 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, accreditation, 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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL FINANCIAL INFORMATION

Hospital Service District No. 1 of
Tangipahoa Parish, Louisiana

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following supplemental financial information, as listed on the contents page, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the page marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material reports in relation to the financial statements taken as a whole.

Arthur Andersen LLP

New Orleans, Louisiana,
September 13, 1999

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

STATEMENTS OF DEPARTMENTAL CHARGES AND EXPENSES

	Year Ended June 30, 1999			Year Ended June 30, 1998		
	Charges	Direct Expenses	Charges Over Direct Expenses	Charges	Direct Expenses	Charges Over Direct Expenses
ROUTINE SERVICES:						
Room	$ 17,446,803	$ 9,081,407	$ 8,365,396	$ 15,540,997	$ 9,735,782	$ 5,805,215
Intensive care	3,038,175	1,256,106	1,782,069	2,771,369	1,556,779	1,214,590
Nursery & NICU	4,810,554	1,929,970	2,880,584	4,768,840	2,124,390	2,644,450
Psychiatric Care	2,604,000	1,110,868	1,493,132	3,324,000	2,025,898	1,298,102
Extended Care Unit	1,582,540	720,354	862,186	1,834,710	833,064	1,001,646
CMR Services	2,367,590	1,272,943	1,094,647	1,854,900	1,940,128	(85,228)
	31,849,662	15,371,648	16,478,014	30,094,816	18,216,041	11,878,775
ANCILLARY SERVICES:						
Admit Express	167,336	177,791	(10,455)	22,075	95,028	(72,953)
Ambulatory Surgery	1,646,167	658,047	988,120	1,109,476	793,155	316,321
Anesthesia	5,354,269	1,900,336	3,453,933	4,720,867	1,682,655	3,038,212
Blood Bank	1,702,723	542,119	1,160,604	1,793,239	563,029	1,230,210
Cardiology	20,155,408	2,031,960	18,123,448	21,062,602	2,372,839	18,689,763
Central Supply	31,417,069	4,341,720	27,075,349	31,480,865	4,152,862	27,328,003
Corporate Health	656,796	312,390	344,406	449,068	293,965	155,103
Electroencephalography	513,154	78,009	435,145	529,532	75,601	453,931
Emergency Room	10,279,121	4,890,308	5,388,813	8,665,532	4,447,668	4,217,864
Family Medicine Clinics	2,437,030	2,497,195	(60,165)	2,847,453	3,235,321	(387,868)
Home Health Care	4,165,851	1,779,073	2,386,778	5,077,949	2,261,519	2,816,430
Hospice	980,393	540,059	440,334	851,893	460,058	391,835
Hyperbaric Services	510,197	109,408	400,789	221,704	75,223	146,481
Labor and Delivery Room	3,377,047	1,399,775	1,977,272	3,219,612	1,368,003	1,851,609
Laboratory	22,055,943	3,387,273	18,668,670	20,664,067	3,210,114	17,453,953
Operating Room	9,774,394	2,612,426	7,161,968	8,819,083	2,069,734	6,749,349
Pharmacy	20,056,852	3,922,402	16,134,450	19,211,284	4,018,174	15,193,110
Radiology	29,236,117	5,722,910	23,513,207	25,757,269	6,368,883	19,388,386
Recovery Room	1,424,147	362,955	1,061,192	1,222,780	308,592	914,188
Rehab Services	10,944,924	3,403,305	7,541,619	10,387,382	3,725,000	6,662,382
Transition Care	-	30,021	(30,021)	263,558	281,271	(17,713)
Urgent Care	3,214,719	965,461	2,249,258	3,090,080	1,008,320	2,081,760
Other Patient Revenue	99,558	-	99,558	160,846	-	160,846
	180,169,215	41,664,943	138,504,272	171,628,216	42,867,014	128,761,202
	212,018,877	$57,036,591	154,982,286	201,723,032	$ 61,083,055	140,639,977
Allowances	(96,090,453)		(96,090,453)	(88,386,170)		(88,386,170)
Charity Care	(5,841,361)		(5,841,361)	(5,064,429)		(5,064,429)
Net Patient Service Revenue	$110,087,063			$108,272,433		
Other Operating Revenue			4,291,575			3,683,425
			57,342,047			50,872,803
INDIRECT EXPENSES:						
Household and Property			4,445,318			4,857,533
Dietary and Cafeteria			2,544,318			2,263,431
Administration and General						
Employee benefits			11,234,987			10,179,598
Insurance - legal-risk management			3,366,242			1,560,080
Other - administration and general			12,209,018			12,066,646
Provision for Bad Debts			4,244,226			3,824,201
Depreciation			8,694,824			5,919,911
Interest Expense			3,633,729			1,426,999
			50,372,411			42,098,399
REVENUE IN EXCESS OF EXPENSES BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE			6,969,636			8,774,404
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE			(97,805)			-
REVENUE IN EXCESS OF EXPENSES			$ 6,871,831			$ 8,774,404

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

PATIENT SERVICE CHARGES

	Year Ended June 30, 1999			Year Ended June 30, 1998		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
ROUTINE SERVICES:						
Room	$ 15,360,290	$ 2,086,513	$ 17,446,803	$ 14,487,066	$ 1,053,931	$ 15,540,997
Intensive care	2,974,136	64,039	3,038,175	2,737,898	33,471	2,771,369
Nursery & NICU	4,810,554	-	4,810,554	4,768,840	-	4,768,840
Psychiatric Care	2,604,000	-	2,604,000	3,324,000	-	3,324,000
Extended Care Unit	1,582,540	-	1,582,540	1,834,710	-	1,834,710
CMR Services	2,367,590	-	2,367,590	1,854,900	-	1,854,900
	29,699,110	2,150,552	31,849,662	29,007,414	1,087,402	30,094,816
ANCILLARY SERVICES:						
Admit Express	11,069	156,267	167,336	-	22,075	22,075
Ambulatory Surgery	39,437	1,606,730	1,646,167	-	1,109,476	1,109,476
Anesthesia	2,792,309	2,561,960	5,354,269	2,674,371	2,046,496	4,720,867
Blood Bank	1,478,622	224,101	1,702,723	1,613,802	179,437	1,793,239
Cardiology	15,219,005	4,936,403	20,155,408	16,924,365	4,138,237	21,062,602
Central Supply	24,142,707	7,274,362	31,417,069	25,379,378	6,101,487	31,480,865
Corporate Health	-	656,796	656,796	-	449,068	449,068
Electroencephalography	200,616	312,538	513,154	272,356	257,176	529,532
Emergency Room	2,095,139	8,183,982	10,279,121	2,409,125	6,256,407	8,665,532
Family Medicine Clinics	-	2,437,030	2,437,030	-	2,847,453	2,847,453
Home Health Care	-	4,165,851	4,165,851	-	5,077,949	5,077,949
Hospice	-	980,393	980,393	-	851,893	851,893
Hyperbaric Services	69,406	440,791	510,197	58,513	163,191	221,704
Labor and Delivery Room	3,178,224	198,823	3,377,047	3,012,692	206,920	3,219,612
Laboratory	14,921,725	7,134,218	22,055,943	15,721,071	4,942,996	20,664,067
Operating Room	3,756,731	6,017,663	9,774,394	3,798,162	5,020,921	8,819,083
Pharmacy	16,389,543	3,667,309	20,056,852	16,689,957	2,521,327	19,211,284
Radiology	9,352,543	19,883,574	29,236,117	9,054,582	16,702,687	25,757,269
Recovery Room	563,625	860,522	1,424,147	535,068	687,712	1,222,780
Rehab Services	5,728,204	5,216,720	10,944,924	6,137,909	4,249,473	10,387,382
Transition Care	-	-	-	-	263,558	263,558
Urgent Care	21,371	3,193,348	3,214,719	49,025	3,041,055	3,090,080
Other Patient Revenue	88,292	11,266	99,558	148,499	12,347	160,846
	100,048,568	80,120,647	180,169,215	104,478,875	67,149,341	171,628,216
	$129,747,678	$82,271,199	$ 212,018,877	$133,486,289	$ 68,236,743	$ 201,723,032

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

DEPARTMENTAL EXPENSE

	Year Ended June 30, 1999			Year Ended June 30, 1998		
	Salaries	Other Expenses	Total	Salaries	Other Expenses	Total
ROUTINE SERVICES:						
Room	$ 8,545,837	$ 535,570	$ 9,081,407	$ 8,864,511	$ 871,271	$ 9,735,782
Intensive care	1,190,758	65,348	1,256,106	1,181,877	374,902	1,556,779
Nursery & NICU	1,642,224	287,746	1,929,970	1,785,097	339,293	2,124,390
Psychiatric Care	749,757	361,111	1,110,868	1,425,771	600,127	2,025,898
Extended Care Unit	659,190	61,164	720,354	775,568	57,496	833,064
CMR Services	1,005,939	267,004	1,272,943	1,456,254	483,874	1,940,128
	13,793,705	1,577,943	15,371,648	15,489,078	2,726,963	18,216,041
ANCILLARY SERVICES:						
Admit Express	154,550	23,241	177,791	28,299	66,729	95,028
Ambulatory Surgery	517,825	140,222	658,047	446,182	346,973	793,155
Anesthesia	1,730,592	169,744	1,900,336	1,564,980	117,675	1,682,655
Blood Bank	85,495	456,624	542,119	87,912	475,117	563,029
Cardiology	1,692,841	339,119	2,031,960	1,754,152	618,687	2,372,839
Central Supply	277,097	4,064,623	4,341,720	267,064	3,885,798	4,152,862
Corporate Health	137,984	174,406	312,390	218,702	75,263	293,965
Electroencephalography	67,184	10,825	78,009	66,836	8,765	75,601
Emergency Room	4,661,426	228,882	4,890,308	4,059,966	387,702	4,447,668
Family Medicine Clinics	2,172,039	325,156	2,497,195	2,703,040	532,281	3,235,321
Home Health Care	1,271,515	507,558	1,779,073	1,647,088	614,431	2,261,519
Hospice	364,389	175,670	540,059	331,476	128,582	460,058
Hyperbaric Services	57,957	51,451	109,408	64,353	10,870	75,223
Labor and Delivery Room	1,326,379	73,396	1,399,775	1,292,621	75,382	1,368,003
Laboratory	1,444,905	1,942,368	3,387,273	1,412,973	1,797,141	3,210,114
Operating Room	1,666,758	945,668	2,612,426	1,484,977	584,757	2,069,734
Pharmacy	16,419	3,905,983	3,922,402	-	4,018,174	4,018,174
Radiology	2,905,817	2,817,093	5,722,910	2,603,827	3,765,056	6,368,883
Recovery Room	356,810	6,145	362,955	301,613	6,979	308,592
Rehab Services	3,067,440	335,865	3,403,305	2,897,218	827,782	3,725,000
Transition Care	-	30,021	30,021	86,892	194,379	281,271
Urgent Care	901,735	63,726	965,461	896,122	112,198	1,008,320
	24,877,157	16,787,786	41,664,943	24,216,293	18,650,721	42,867,014
	$ 38,670,862	$18,365,729	$ 57,036,591	$ 39,705,371	$ 21,377,684	$61,083,055

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

DEPARTMENTAL EXPENSE

	Year Ended June 30, 1999			Year Ended June 30, 1998		
	Salaries	Other Expenses	Total	Salaries	Other Expenses	Total
HOUSEHOLD AND PROPERTY:						
Housekeeping	$ 613,782	$ 300,258	$ 914,040	$ 541,285	$ 297,355	$ 838,640
Laundry	254,497	152,134	406,631	250,587	415,225	665,812
Plant Engineering	737,446	2,386,950	3,124,396	735,845	2,617,236	3,353,081
	1,605,725	2,839,342	4,445,067	1,527,717	3,329,816	4,857,533
DIETARY AND CAFETERIA	1,255,271	1,289,058	2,544,329	1,204,879	1,058,552	2,263,431
ADMINISTRATION AND GENERAL:						
Employee Benefits-						
Daycare Center	706,082	179,565	885,647	729,599	195,134	924,733
Employee Benefits	-	9,181,757	9,181,757	-	8,114,632	8,114,632
Employee Relations	761,348	406,235	1,167,583	734,832	405,401	1,140,233
	1,467,430	9,767,557	11,234,987	1,464,431	8,715,167	10,179,598
Insurance - legal/risk management	186,765	3,179,477	3,366,242	239,038	1,321,042	1,560,080
Other-						
Administration	704,080	704,168	1,408,248	661,796	1,365,776	2,027,572
Case Management	706,640	11,938	718,578	-	-	-
Communications	403,989	218,335	622,324	343,893	321,837	665,730
Community Resources	598,020	147,875	745,895	623,736	579,935	1,203,671
Computer Information Services	685,218	740,418	1,425,636	441,756	799,808	1,241,564
Finance	493,097	108,521	601,618	469,568	240,024	709,592
Gift Shop	30,345	202,032	232,377	30,560	218,482	249,042
Infection Control	109,823	29,538	139,361	-	-	-
Medical Outreach	89,178	5,083	94,261	38,114	758	38,872
Medical Records	874,278	313,678	1,187,956	891,139	316,591	1,207,730
Medical Staff	-	1,089,805	1,089,805	-	441,830	441,830
Patient Financial Services	1,377,632	853,150	2,230,782	1,202,043	753,499	1,955,542
Print Shop/Material Services/Biomed	372,496	119,953	492,449	369,404	191,140	560,544
Quality Resources	267,629	190,502	458,131	970,224	81,862	1,052,086
Radiology School	85,363	37,481	122,844	66,997	36,842	103,839
Security	528,175	1,579	529,754	488,248	10,355	498,603
Volunteer Services	69,603	39,396	108,999	63,269	47,160	110,429
	7,395,566	4,813,452	12,209,018	6,660,747	5,405,899	12,066,646
	9,049,761	17,760,486	26,810,247	8,364,216	15,442,108	23,806,324
	$ 11,910,757	$21,888,886	$ 33,799,643	$ 11,096,812	$ 19,830,476	$ 30,927,288

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

OTHER REVENUE AND ALLOWANCES

	Year Ended June 30	
	1999	1998
OTHER REVENUE:		
Cafeteria	$ 700,437	$ 715,943
Day Care	417,113	456,468
Gift Shop	244,541	275,447
Interest Income	2,739,833	1,841,698
Rental income	256,760	190,993
X-Ray School income	109,120	95,898
Miscellaneous	115,906	106,978
	$ 4,583,710	$ 3,683,425
ALLOWANCES:		
Administrative adjustments	$ 1,439,891	$ 1,593,563
Blue Cross, Louisiana State Employees Group Benefits and Other Contractual Allowances	23,826,111	20,347,670
Medicaid Contractual Allowances	24,781,801	22,333,604
Medicare Contractual Allowances	46,042,650	44,111,333
	$96,090,453	$88,386,170

HOSPITAL SERVICE DISTRICT NO. 1 OF TANGIPAHOA PARISH, LOUISIANA

PATIENT AND HOSPITAL STATISTICAL DATA (UNAUDITED)

	Year Ended June 30	
	1999	1998
ADMISSIONS:		
Adult and Pediatric	9,417	9,515
Newborn and NICU	1,552	1,644
Extended Care Unit	367	447
Psychiatric Care	229	235
CMR Services	343	171
PATIENT DAYS:		
Adult and Pediatric	41,888	43,184
Medicare (included in adult and pediatrics)	19,390	21,577
Medicaid (included in adult and pediatrics)	7,971	7,284
Newborn and NICU	5,867	6,354
Extended Care Unit	4,058	5,032
Psychiatric Care	3,259	4,159
CMR Services	4,842	4,128
OPERATING ROOM PATIENTS	7,713	7,140
OUTPATIENT REGISTRATIONS	68,105	58,035
EMERGENCY ROOM VISITS	53,594	49,872
AVERAGE DAILY CENSUS:		
Adult and Pediatrics	115	118
Extended Care Unit	11	14
Psychiatric Care	9	11
CMR Services	13	11
AVERAGE LENGTH OF STAY (excluding newborn):		
All Patients	4.5	4.5
Medicare Patients	5.8	5.8
Medicaid Patients	3.5	3.4
Extended Care Unit	10.9	11.4
Psychiatric Care	14.2	17.7
CMR Services	14.1	24.0
PERCENTAGE OF TOTAL PATIENT DAYS:		
Medicare	46.3%	50.0%
Medicaid	19.0%	16.9%
HOME HEALTH VISITS	29,338	38,814
FAMILY MEDICINE CLINIC	33,919	35,671
FULL TIME EQUIVALENTS (FTEs)	1,443	1,455

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the financial statements of Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital) as of and for the year ended June 30, 1999, and have issued our report thereon dated September 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's 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 herein under Government Auditing Standards.

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 the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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

Arthur Andersen LLP

New Orleans, Louisiana
September 13, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE WITH REVENUE BOND PROVISIONS

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

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital) as of June 30, 1999, and the related statements of revenue, expenses and fund balance and cash flows for the year then ended, and have issued our report thereon dated September 13, 1999.

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 $13,000,000 Hospital Revenue Bonds (Series 1990) and $61,535,000 Hospital Revenue Bonds (Series 1994) reflecting the provisions of Resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana on July 17, 1990, November 28, 1990, May 18, 1994, and June 22, 1994 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 of the board of commissioners, management and the bond trustee. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
September 13, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
SCHEDULE OF DEBT SERVICE COVERAGE RATIO,
CASH ON HAND AND AVERAGE DAILY EXPENSE

The Board of Commissioners
Hospital Service District No. 1 of
Tangipahoa Parish, 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, 1999 of Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital). Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

A review is substantially less in scope than an audit, the objective of which is the expression of an opinion on the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense. 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(c) and 718 of the Composite Bond Resolution relating to $13,000,000 Hospital Revenue Bonds (Series 1990) and $61,535,000 Hospital Revenue Bonds (Series 1994) reflecting the provisions of Resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, on July 17, 1990, November 28, 1990, May 18, 1994, and June 22, 1994.

Based on our review, nothing came to our attention that caused us to believe that the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense is not presented in conformity with the basis set forth in Note 1.

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

Arthur Andersen LLP

New Orleans, Louisiana
September 13, 1999

HOSPITAL SERVICE DISTRICT NO. 1

OF TANGIPAHOA PARISH, LOUISIANA

SCHEDULE OF DEBT SERVICE COVERAGE RATIO,

CASH ON HAND AND AVERAGE DAILY EXPENSE

FOR THE YEAR ENDED JUNE 30, 1999

DEBT SERVICE COVERAGE RATIO:	
Net income available for debt service:	$ 6,871,831
Excess of revenue over expenses	
Add:	
Depreciation	8,694,824
Interest expense	3,633,729
Net income available for debt service	$ 19,200,384
Maximum annual debt service	$ 4,744,466
Debt service coverage ratio	4.05
Minimum required debt service coverage ratio per Section 501	1.20
CASH ON HAND:	
Cash on hand*	$ 47,584,227
AVERAGE DAILY EXPENSE:	
Operating expenses	$ 107,409,002
Less:	
Depreciation	8,694,824
Provision for bad debts	4,244,226
	$ 94,469,952
Average daily expense (based on 365 days)	$ 258,822
Days cash on hand	184
Minimum required days cash on hand per Section 718	45

*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.

The accompanying notes are an integral part of this financial statement.

HOSPITAL SERVICE DISTRICT NO. 1 OF

TANGIPAHOA PARISH, LOUISIANA

NOTES TO SCHEDULE OF DEBT SERVICE COVERAGE

RATIO, CASH ON HAND, AND AVERAGE

DAILY EXPENSE

FOR THE YEAR ENDED JUNE 30, 1999

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 $13,000,000 Hospital Revenue Bonds (Series 1990) and $61,535,000 Hospital Revenue Bonds (Series 1994) reflecting the provisions of Resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, on July 17, 1990, November 28, 1990, May 18, 1994 and June 22, 1994.

ARTHUR ANDERSEN

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Suite 4500
201 St Charles Avenue
New Orleans LA 70170-4500
504 581 5454

September 13, 1999

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

As part of our audit of the financials statements for Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the Hospital) for the year ended June 30, 1999, we considered the Hospital's internal control structure in determining the scope of our audit procedures for the purposes of rendering an opinion on the financial statements. While our primary purpose in this engagement was not to provide assurances on the internal control structure, we noted the matters outlined below that we want to bring to your attention.

Modification of Bad Debt Template Calculation

The Hospital captures reserves for bad debt in several general ledger accounts and uses a template to calculate the bad debt allowance required on accounts receivable. The template was developed several years ago by the Hospital and has not been revised. Although the overall level of bad debt reserves was adequate at June 30, 1999, given the changes in the reimbursement generated by the growth in managed care and the changes in Medicare and Medicaid payment structures, the reserve methodology and mechanics of booking entries to capture writeoffs and reserves should be reviewed periodically to ensure that current procedures and calculations are consistent with current reimbursement and provide a mechanism for management to easily monitor the reserve.

Management Response

The bad debt reserves of the Hospital are computed using write off percentages from several years ago. These percentages are adequate to cover any of our accounts receivables that are not collectable for year ended June 30, 1999. During the fiscal year, we analyzed payment percentages for the commercial payors and the private payors to determine collectability. Due to the increase in the Managed Care patients, we will set up procedures to calculate these reserves to ensure that our percentages are changing with the new contracts. Medicare and Medicaid payment structures are reviewed and monitored with the cost reports that are prepared on an interim basis throughout the fiscal year.

Information Technology Risk Assessment

During our discussions regarding Information Systems used by the Hospital, we noted several areas in which additional internal controls would improve the security and integrity of the systems. A separate detailed memo has been provided to management that discusses control procedures that should be considered in managing and operating the systems(Exhibit A).

This letter is intended solely for the use of management and the Board of Directors and is not intended for any other purpose.

We appreciate the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss the recommendations in greater detail or otherwise assist in their implementation at your convenience.

Very truly yours,

Arthur Andersen LLP

EXHIBIT A

To:	Ms. Susie Howes
CC:	Mr. Ted Bruning
From:	Ashar Zaheer and Michael Sullivan, Houston
Date:	September 9, 1999
Subject:	North Oaks Health System Information Technology Risk Assessment For year ended 06/30/99

PURPOSE:

As part of the IT Risk Analysis process and the 1999 audit planning, we completed on September 9, 1999 our general Information Technology (IT) controls risk assessment for North Oaks Health System in Hammond, Louisiana. This memorandum documents the nature of the IT function at North Oaks and summarizes the scope of our review, our finding, and our overall assessment of the impact of IT on audit testing.

SCOPE OF REVIEW:

Our review was performed through discussions with:

- Shirley Hsing, Director of Finance
- Ted Bruning, CIS Director
- Beth Ciampa, Financial Systems Analyst
- Ann Hurst, Assistant System Analyst
- Lisa Locicero, CIS Help Desk Coordinator

Our primary focus in performing this risk assessment was to identify any significant control weaknesses that might have an impact on audit scope.

Based on the audit engagement team's planned non-reliance on general information technology (IT) controls, we determined that our review would be limited to a general IT controls risk assessment. This assessment was designed to gain an understanding of North Oaks' IT system security, management, and Year 2000 exposure. It is not an assessment of the systems themselves. No application reviews were performed and no compliance testing was performed; therefore, our review may not disclose all weaknesses, particularly those that are application-specific, in the environment. This primary basis for all findings and conclusions was inquiry of Information Systems Department personnel.

The following areas were covered in our IT Risk Assessment for North Oaks:

1) Organization and Management of IT Activities and Processes
2) Application Systems development maintenance
3) Systems Software/Hardware Support
4) Computer Operations
5) Internal Audit of IT

6) Back up, Offsite Storage and Contingency Planning
7) Security Administration
8) Purchasing Procedures
9) Internet Policy

IT BACKGROUND:

North Oaks Health Systems CIS Department is currently in a Year 2000 moratorium, postponing any non-essential initiatives until second quarter 2000. CIS Year 2000 compliance goals are 80-85% complete with the ultimate goal of completion by the end of September. Not directly associated with Year 2000 compliance, the CIS staff has nearly doubled in the last year as a result of a growth in the user base and a subsequent perception of slow response times from IT support.

North Oaks is currently under contract with Infopartners Consulting Co for IT Management and related IS services. Ted Bruning was hired by Infopartners and remains as CIS Director for North Oaks on an outsourcing basis. North Oaks also receives industry trend information from Infopartners.

The Help Desk function appears to be operating smoothly under its current strategy. User issues are directed to the CIS Help Desk coordinator, Lisa Locicero. The coordinator logs all calls and dispatches the calls to the appropriate technician or analyst. Hardware and standard desktop software issues are directed to a technician, network analyst or network engineer designated to address these issues. In addition to those resources, three to four analysts are dedicated to resolving operation software issues (e.g., HBOC and Nurse Staffing). Operation software not supported by CIS is routed to Liaisons for level one support. The Liaisons follow up with vendors for issues that cannot be resolved immediately by themselves.

Currently, 24 servers are in operation on site with one server off site. The onsite servers all are housed in an environmentally protected room with card swipe security that logs entrants. The off site server houses Long Term Care and MDS (minimum data set) information and is administered remotely. There are plans to implement a microwave link to replace the T1 currently in place.

All systems in total host 725 individual users with separate user IDs for each application. The following activities are taking place in this environment:

- Installing new Time and Attendance software
- Upgrading Payroll, Financial, & Clinical software

FINANCIALLY SIGNIFICANT SYSTEMS

Our review indicated that the CIS Department is significant to financial reporting and business operations. The following is the list of financial applications at North Oaks for the 1999 audit year:

General Ledger
Accounts Payable/ Materials Management/ EDI
Payroll/ HR/ Medical Records
Patient Billing
Order Management
Patient Information
Pharmacy

IT RISK ASSESSMENT

Overall the North Oaks environment appears to have limited exposure to risk. The CIS Department is amply staffed. CIS continues to focus on Year 2000 contingency plans and initiatives which are closely monitored and will be completed by September 30, 1999. The Information Management Team, consisting of IT personnel and others, assists CIS by monitoring the flow of data throughout the hospital.

The following areas have been identified as areas of risk:

- Limited internal IT audit documentation
- Limited security at off site server location
- Server room location at edge of building with 50% glass facing the parking lot
- Limited mechanism in place of system violation/tampering notification

The Financial Director believes that the IT support is more than adequate and that no apparent issues currently exist with CIS. The current size of the staff relative to the number of users would reinforce that sentiment.

The CIS Director's goal for Year 2000 initiatives, excluding the payroll software upgrade and the time and attendance software implementation, was to be completed by September 1999. According to a client provided report, 11% of the initiatives are incomplete, but the Director expressed confidence in achieving complete Year 2000 readiness by December. Further, the Director has reserved resources for the first quarter of 2000 to resolve potential Year 2000 related issues.

Organization and Management of IT Activities and Processes

Control(s)

- The Computer Information Services department is inhouse. The position of CIS Director is outsourced to Infopartner – a consulting services company.
- The 1999 CIS Capital Equipment budget was $1.7MM. The figure is one component of the total IT budget which is roughly 2-3% of the total hospital budget with a trend increasing in the recent past and the future.
- An IT Steering Committee handles requests from the user group while an Information Management Team meets bi-monthly to ensure high effectiveness and efficiency of information flow throughout the hospital.
- An IT Steering Committee is focusing on the formalization of a charter that outlines the development of a strategic direction to which information technology will adhere.
- Staff member training appears to be focused on administering North Oaks' various packaged applications.

Weakness(es)

- 10% of the Y2K compliance areas are still awaiting compliance reviews and/or corrections.

Recommendation(s)

- The IT Steering Committee should ensure that development and maintenance projects are prioritized and resources allocated to best meet North Oak's overall business and Y2K needs.

Management Response

Prioritized development and maintenance Information Systems Projects will appear in the annual IS Plan for FY 2000/2001, which will be completed in April Of 2000. The Information Systems Steering Committee (ISSC) will outline a suggested IT strategy and tactical plan for achieving it. Anticipated resources needed for various development and maintenance projects will be identified.

This IS Plan will then be presented to Administrative Council for review and recommendation.

Application Systems Development Maintenance

Control(s)

- HBOC (implemented in 1994) averages one vendor-related upgrade annually.
- A limited number of custom changes to HBOC have been made and documented. These changes are tested and approved by the users.
- Development is always conducted inhouse and changes to the code or objects are documented.
- Change requests to delivered software are recorded on a standard form and presented for approval by the director of the requesting department.

- A periodic review of all applications' upgrade logs is conducted to ensure timeliness of execution

Systems Software/Hardware Support

Control(s)

- The helpdesk is the single point of contact for all user hardware or software issues.
- The helpdesk determines whether a call needs to be channeled to a technician or to a departmental liaison - a superuser versed in a specific application who can help resolve the issue or who can log the issue for discussions with the software vendor.
- The helpdesk is staffed 8 hours a day and is covered by alternates when the staff is away helping users.

Computer Operations

Control(s)

- Access to the environmentally controlled server room is restricted by security card readers.
- All access to the server room is logged.
- UPS tests are conducted annually.
- Director approval is required to grant user access to system resources.
- Many IT personnel have deep application security access as a result of job function.

Recommendation(s)

- MIS security administration procedures should be defined and observed for the following:
  - Periodic reviews of user access requirements to ensure that access to computer resources is continuing to be assigned on a business-need-only basis and approved by a department director
  - Server room access logs need to be periodically reviewed and appropriate measures need to be defined for violations.

Management Response

Our current informal user access policy, which grants access for business-need-only upon approval by an employee's Director will be reviewed and set as formal CIS Policy/Procedure. A suggested change in the current process stipulating a periodic review of a user's current access level privilege will be drafted and submitted to our Information Management Committee (IMC) in February 2000 for review and recommendation.

Printing of server room access logs will be discussed with our Building & Grounds department as this department currently controls the proximity lock system installed on our server room. Our expectation is to begin printing and reviewing access logs periodically. Further, the matter of appropriate disciplinary action for violations will be reviewed with our Human Resources department.

Internal Audit of IT

Weakness(es)

- There is no formally defined internal audit process in place. The administration relies on the Information Management Team (formed as a result of JCAHO).

Recommendation(s)

- A formal internal audit procedure and schedule should be defined, and observed, that:
  - performs evaluations of the IS controls environment on a regular basis
  - performs application controls reviews of financial application systems on a regular basis.
  - Assures outside vendor contract obligations are being fulfilled in a timely manner.

Management Response

Definition of a formal internal audit procedure that evaluates IS environment controls, reviews application controls of financial application systems, and assures that outside vendor contract obligations are being fulfilled in a timely manner will be drafted, reviewed and planned to become formal CIS policy in April 2000.

Back up, Off Site Storage, and contingency Planning

Control(s)

- Backups are performed daily on a two-week rotation and stored onsite in two different fireproof locations.

Weakness(es)

- There is no formally documented disaster plan.
- The data center is on the first floor so flooding may be of concern. Also, the far wall of the room is roughly 50% glass with the AC unit positioned right in front of the window. This configuration may result in minimum damage to servers in the event of flying debris during a tornado, but a possible cutoff of the cooling in the room is at risk. Additionally, the window faces a parking lot, thus lending the server room to additional compromise. Finally, the window does not appear to have enough tinting or covering to prevent a passerby from peering in.

Recommendation(s)

- Develop an IS disaster plan that identifies and implements a "hotsite" , or other alternatives to recover from a total loss of production system data.

Management Response

A CIS disaster plan that identifies various disaster recovery alternatives and projected associated costs will be developed for the FY 2000/20001 budget by ISSC and delivered to Administrative Council in April of 2000 for review and recommendation.

Security Administration

Control(s)

- Separate passwords are issued for network and vendor applications – synchronization can be requested
- Application level security is defined at the individual screen and feature level
- A DP report is run and reviewed quarterly to monitor user security levels/assignments

Weakness(es)

- As a result of their job function a number of people (5-6) appear to have unlimited privileges to patient and payroll data systems. Combined with no internal audit procedures currently in place, this situation may pose a somewhat high-risk scenario that requires timely resolution.

Recommendation(s)

- Formal policies should be developed defining the organization's information security objectives and the responsibilities of employees with respect to protecting corporate information. These policies should cover all computing platforms (e.g., mainframe, midrange, local area networks and personal computers) and should be actively and visibly supported by management.
- Overall access control software security option parameters should be defined in a manner that would promote a well secured installation. High-level control options of the access control system should be defined to enforce security restrictions and to limit the number of unsuccessful resource attempts.
- A separate security administration function should be defined within CIS, as a totally independent function or with the individual data owners. In addition, this function should be assigned at an adequate organizational level to ensure proper enforcement of security policies and procedures.
- Security violation reports should be developed, implemented, and scheduled for periodic review with resolution measures in place.

Management Response

Current access request forms and confidentiality agreements are in the process of being reviewed and/or revised. These collective forms and agreements will become related documents to formal CIS Policies/Procedures in February 2000.

Access control software security option parameters and implementation of a high-level control system to limit unsuccessful resource access attempts are being investigated. The investigation and definition of parameters are expected to be complete in the first quarter of 2000.

The suggestion of a separate and totally independent security administration function within CIS or with individual data owners will be brought to our IMC in December 1999 for consideration.

Proposed security monitoring policy and procedures, reporting, review and resolution will be drafted and submitted to our IMC for review and recommendation in February 2000.

Purchasing Procedures

Control(s)

- Purchase thresholds/authorizations for all non-revenue generating equipment (IT hardware/equipment) are clearly defined.
- Ad Hoc requests from the user group are presented to department directors; directors make a case to the Steering Committee on behalf of the user and a recommendation is made by the committee as to how to proceed.

Internet Policy

Control(s)

- Access to the Internet is given on as needed basis, determined by job function and business need, approved by a department director.
- Within 30 days the local ISP (Internet Service Provider) will no longer be administering/maintaining the firewall security.

Weakness(es)

- There is no formal company policy on internet usage and no usage monitoring.

Recommendation(s)

- A formal policy should be defined and communicated to the user group.
- As internet usage expands throughout the company the procedures and maintenance of the firewall may need to be revisited. Also, a monitoring package should be implemented to ensure that usage policies are being adhered to.

- Service level agreements with the ISP have to be monitored and audited periodically to ensure contractual obligations are being met in a timely manner.

Management Response

Draft of a formal policy on Internet usage and procedure for usage monitoring will be submitted to our IMC in February 2000 for review and recommendation.

Bandwidth utilization of our Internet connection thorough our Internet Service Provider (ISP) is being monitored periodically to ensure contractual obligations are being met.