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Financial Statements

Hospital Service District No. 1
of Tangipahoa Parish, Louisiana

Years ended June 30, 1998 and 1997
with Report of Independent Auditors

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

Financial Statements

Years ended June 30, 1998 and 1997

Contents

ERNST & YOUNG LLP

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Report of Independent Auditors

The Board of Commissioners
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, 1998 and 1997, and the related statements of revenue, expenses and fund balance 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 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 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated September 25, 1998 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.

Ernst + Young LLP

September 25, 1998

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

Balance Sheets

	June 30 1998	June 30 1997
Assets		
Current assets:		
Cash	**$ 2,336,530**	$ 3,713,780
Patient accounts receivable, net of estimated uncollectibles of $6,024,000 in 1998 and $3,978,000 in 1997	**20,351,183**	18,493,650
Assets whose use is limited required for current liabilities—self-insurance claims and debt service	**3,279,105**	2,794,914
Inventories	**225,609**	230,217
Prepaid expenses and other current assets	**1,467,489**	1,256,532
Total current assets	**27,659,916**	26,489,093
Assets whose use is limited:		
Under bond indenture agreement—held by trustee: Revenue Bonds, Series 1994 and 1990	**15,790,084**	25,217,348
By board for plant and equipment additions and replacements	**32,755,324**	28,788,989
By board for self-insurance claims	**623,314**	663,830
	49,168,722	54,670,167
Less assets whose use is limited required for current liabilities	**3,279,105**	2,794,914
Noncurrent assets whose use is limited	**45,889,617**	51,875,253
Notes receivable	**543,931**	561,837
Deferred compensation plan	**1,524,831**	-
Unamortized debt issuance costs	**1,924,002**	2,040,755
Other assets	**182,455**	267,688
Property, plant and equipment:		
Land	**4,119,404**	4,009,784
Buildings and equipment	**123,582,758**	74,399,222
Construction in progress	**1,541,674**	27,934,363
	129,243,836	106,343,369
Less accumulated depreciation	**44,950,213**	40,282,740
	84,293,623	66,060,629
	$162,018,375	$147,295,255

	June 30	
	1998	**1997**
Liabilities		
Current liabilities:		
Accounts payable	**$ 6,622,716**	$ 6,554,097
Accrued salaries and payroll-related costs	**3,309,147**	2,873,756
Accrued interest payable	**1,528,980**	1,553,146
Accrued self-insurance claims	**2,001,534**	1,836,323
Estimated third-party payor settlements — Medicare and Medicaid	**8,368,466**	6,245,023
Current portion of capital lease obligations	**815,936**	251,115
Current portion of long-term debt	**1,070,000**	1,015,000
Total current liabilities	**23,716,779**	20,328,460
Capital lease obligations, excluding current portion	**2,484,458**	429,185
Deferred compensation plan	**1,524,831**	–
Long-term debt, net of unamortized bond discount of $828,793 in 1998 and $879,086 in 1997, excluding current portion	**58,886,207**	59,905,914
Fund balance	**75,406,100**	66,631,696
	$162,018,375	$147,295,255

See accompanying notes.

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

Statements of Revenue, Expenses and Fund Balance

	Year ended June 30	
	1998	**1997**
Net patient service revenue	**$ 108,272,433**	$ 95,953,997
Other revenue	**3,683,425**	3,119,636
Total revenue	**111,955,858**	99,073,633
Expenses:		
Routine services	**18,216,041**	15,559,034
Ancillary services	**42,867,014**	37,768,761
Household and property	**4,857,533**	3,836,021
Dietary and cafeteria	**2,263,431**	2,142,049
Administration and general	**23,806,324**	21,217,119
Provision for bad debts	**3,824,201**	1,918,797
Depreciation	**5,919,911**	4,731,274
Interest	**1,426,999**	1,112,878
Total expenses	**103,181,454**	88,285,933
Revenue in excess of expenses	**8,774,404**	10,787,700
Fund balance at beginning of year	**66,631,696**	55,843,996
Fund balance at end of year	**$ 75,406,100**	$ 66,631,696

See accompanying notes.

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

Statements of Cash Flows

	Year ended June 30 1998	1997
Operating activities		
Revenue in excess of expenses	**$ 8,774,404**	$ 10,787,700
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Depreciation	**5,919,911**	4,731,274
Net loss (gain) on disposals of assets	**(22,171)**	15,179
Interest income	**(1,841,698)**	(1,660,097)
Interest expense	**1,426,999**	1,112,878
Changes in operating assets and liabilities:		
Patient accounts receivable	**(1,857,533)**	512,894
Inventories, prepaid expenses and other current assets	**(206,349)**	25,839
Estimated third-party payor settlements—Medicare and Medicaid	**2,123,443**	1,362,407
Accounts payable, accrued salaries and payroll-related costs, and other accrued expenses	**669,221**	2,953,819
Net cash provided by operating activities	**14,986,227**	19,841,893
Capital and related financing activities		
Purchases of property, plant and equipment	**(19,569,744)**	(27,654,483)
Proceeds from disposals of assets	**50,510**	16,815
Principal payments on long-term debt	**(1,015,000)**	(585,000)
Principal payments on capital lease obligations	**(528,736)**	(240,822)
Interest payments on long-term debt and capital lease obligations	**(3,862,815)**	(3,807,988)
Change in other assets, net	**85,233**	85,234
Net cash used in capital and related financing activities	**(24,840,552)**	(32,186,244)
Investing activities		
Interest earned	**2,957,724**	3,557,881
(Increase) decrease in assets whose use is limited:		
Under bond indenture agreement	**9,427,264**	15,031,381
By board for plant and equipment	**(3,966,335)**	(4,798,859)
By board for self-insurance claims	**40,516**	(6,655)
Other	**17,906**	16,859
Net cash provided by investing activities	**8,477,075**	13,800,607
Net increase (decrease) in cash	**(1,377,250)**	1,456,256
Cash at beginning of year	**3,713,780**	2,257,524
Cash at end of year	**$ 2,336,530**	$ 3,713,780

Supplemental disclosures of cash flow information

During 1998, the Hospital entered into capital lease obligations for equipment of approximately $3,149,000.

See accompanying notes.

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

Notes to Financial Statements

June 30, 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 Council. The District owns and operates North Oaks Medical Center, a 267-bed acute care hospital, and North Oaks Rehabilitation Hospital, a 35-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. This exemption also applies to state income taxes.

Basis of Accounting

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

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.

1. Organization and Significant Accounting Policies (continued)

During 1998, in response to a change in Medicare regulations the Hospital changed their asset capitalization policy. In prior years, the Hospital capitalized all assets greater than $500. Beginning in 1998, the Hospital began capitalizing only assets greater than $5,000. This resulted in an increase in operating expense of approximately $2,723,000.

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

During the year ended June 30, 1998, the Hospital elected to adopt the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*; accordingly, 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. The accounting change was applied retroactively; however, prior period financial statements were not restated as the effect is not material.

Self-Insurance Claims

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

Net Patient Service Revenue and Related Receivables

Net patient service revenue is reported at the estimated net realizable amounts 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.

1. Organization and Significant Accounting Policies (continued)

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. Medicaid inpatient services are paid on a prospective per diem system.

Medicare outpatient services, psychiatric care, home health services, bad debts, skilled nursing services, 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.

Changes in Presentation of Comparative Statements

Certain amounts in the 1997 financial statements have been reclassified to conform to the 1998 presentation.

2. Cash and Investments

Statutes authorize the Hospital to invest in United States Government obligations and 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.

2. Cash and Investments (continued)

The Hospital's bank balances of deposits at June 30, 1998 and 1997, 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, 1998 and 1997, the Hospital had invested $20,868,926 and $35,705,311, respectively, in U. S. Government obligations and money market accounts whose underlying investments consist 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. The cost of such investments approximates market at June 30, 1998 and 1997. These funds are recorded 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, 1998 and 1997, approximately 59% and 67%, respectively, of the Hospital's patient service charges were furnished to Medicare and Medicaid program beneficiaries.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid program.

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 and adjustments of $4,082,000 and $677,000 for fiscal years 1998 and 1997, respectively, have been recorded to increase net patient service revenue in each of the years to reflect the effect of changes made by program representatives. No significant differences are anticipated between the settlements recorded and the final settlements 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, they 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 for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30, 1998 and 1997.

	1998	1997
Charges foregone, based on established rates	**$ 5,064,429**	$ 5,905,626

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, 1998 and 1997, the funds were deposited as follows:

	1998	1997
Bond debt service accounts	**$ 546,801**	$ 431,378
Sinking fund accounts	**2,015,310**	1,705,413
Construction account	**8,333,728**	18,144,250
Reserve accounts	**4,894,245**	4,936,307
	$ 15,790,084	$ 25,217,348

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 which are stated at fair market value at June 30, 1998 and 1997.

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 the Hospital's and their contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts 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 $464,511 in fiscal year 1998 and $393,343 in fiscal year 1997, representing the required contributions in both years. Employee contributions were $985,275 in 1998, representing 4.24% of total covered payroll. Total payroll and covered payroll were $50,498,687 and $23,225,564, respectively, for the year ended June 30, 1998.

Pension Plan

In October 1997, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (Statement 32). 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

7. Employee Retirement Plans (continued)

Hospital has two deferred compensation plans which meet the criteria outlined in Statement 32. Accordingly, the Hospital had recorded an asset and a corresponding liability of $1,524,831 for the fair market value of the plan assets as of June 30, 1998.

8. Risk Management

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.

For individual malpractice claims in excess of $100,000, 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 stages of litigation. As of June 30, 1998, the Hospital has accrued $949,400 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, 1998 are adequate to provide for potential losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients through June 30, 1998. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, accordingly, no accrual has been made for them.

8. Risk Management (continued)

The Hospital is self-insured for workers' compensation up to $225,000 per claim, and employee health up to $80,000 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.

Changes in the Hospital's aggregate claims liability in fiscal years 1998 and 1997 were as follows:

Year Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1998	**$1,836,323**	**$ 5,220,517**	**$ (5,055,306)**	**$2,001,534**
1997	$1,195,055	$ 5,224,547	$ (4,583,279)	$1,836,323

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, 1998:

1999	$ 982,204
2000	939,660
2001	725,215
2002	736,906
2003	574,265
Total minimum lease payments	3,958,250
Less amount representing imputed interest	657,856
Present value of net minimum lease payments (including $815,936 classified as current)	$ 3,300,394

9. Capital Lease Obligations (continued)

The cost of leased assets included in equipment totaled $4,748,910 in 1998 and $1,529,945 in 1997 and accumulated amortization was $1,571,932 and $964,469 at June 30, 1998 and 1997, 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 $1,107,878 and $1,228,820 for the years ended June 30, 1998 and 1997, respectively.

10. Long-Term Debt

The Hospital's long-term debt as of June 30, 1998 and 1997 consisted of bonds payable as follows:

	1998	**1997**
Hospital Revenue Bonds, Series 1990	$ –	$ 515,000
Hospital Revenue Bonds, Series 1994	**60,785,000**	61,285,000
Less unamortized bond discount	**828,793**	879,086
	59,956,207	60,920,914
Less current portion	**1,070,000**	1,015,000
	$ 58,886,207	$ 59,905,914

The Hospital issued $13,000,000 of Hospital Revenue Bonds (Series 1990) which are serial bonds with annual interest rates ranging from 6.65% to 6.90% and annual principal payments ranging from $485,000 in 1996 to the final payment in 2010 of $1,195,000. The Revenue Bonds are subject to optional redemption at the discretion of the Hospital on February 1, 1998 and thereafter at par. Payment of the scheduled principal and interest on the 1990 Revenue Bonds is insured by AMBAC Indemnity Corporation. The 1990 Revenue Bonds are obligations of the Hospital secured by a pledge of the Hospital's revenue. In connection with the issuance of the Series 1994 Revenue Bonds, the Hospital defeased $10,015,000 of the Series 1990 Revenue Bonds maturing from 1999 to 2010 (see below).

10. 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 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.

In connection with the advance refunding of a portion of the outstanding Series 1990 Bonds, $10,150,000 in proceeds from the Series 1994 bonds were deposited in an irrevocable trust with a trustee and used to purchase U. S. Government securities. The U. S. Government securities held by the trust, together with interest to be earned, are sufficient to provide for the payment of principal and interest on the portion of the Series 1990 Bonds advance refunded. As a result, $10,015,000 of the Series 1990 Bonds are considered to be defeased effective July 5, 1994.

During fiscal years 1998 and 1997, the Hospital capitalized interest cost of $2,246,788 and $2,617,646, respectively, as part of the expansion project. In addition, interest earned on unexpended bond proceeds in the amount of $784,119 and $1,667,965 in fiscal years 1998 and 1997, respectively, were capitalized as a reduction to the expansion project.

The scheduled maturities of the Series 1994 Bonds for the next five fiscal years ending June 30 are as follows: 1999—$1,070,000; 2000—$1,125,000; 2001—$1,180,000; 2002—$1,240,000; 2003—$1,310,000; and $54,860,000 thereafter.

11. Commitments

The Hospital has incurred $400,000 related to the renovation of the old 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 $6,000,000.

12. Impact of Year 2000 Computer Issues (Unaudited)

The Year 2000 issue is the result of 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 conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Hospital.

The Hospital has initiated a companywide 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.

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Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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 District) as of and for the year ended June 30, 1998, and have issued our report thereon dated September 25, 1998. 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 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 herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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, management, and the Office of Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

September 25, 1998

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Report of Independent Auditors on Compliance With Revenue Bond Resolution

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 District) as of June 30, 1998, 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 25, 1998.

In connection with our audit, nothing came to our attention that caused us to believe that the District 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, the bond trustee, and the Office of Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

September 25, 1998

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Independent Accountants' 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
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, 1998 of Hospital Service District No. 1 of Tangipahoa Parish, Louisiana (the District). 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 Section 711(e) 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.

Ernst + Young LLP

September 25, 1998

Hospital Service District No. 1 of
Tangipahoa Parish, Louisiana

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

Year ended June 30, 1998

Debt service coverage ratio:	
Net income available for debt service:	
Excess of revenue over expenses	$ 8,774,404
Add:	
Depreciation	5,919,911
Interest expense	1,426,999
Net income available for debt service	$ 16,121,314
Maximum annual debt service	$ 5,721,755
Debt service coverage ratio	2.82
Minimum required debt service coverage ratio per Section 501	1.20
Cash on hand:	
Cash on hand*	$ 35,715,168
Average daily expense:	
Operating expenses	$ 103,181,454
Less:	
Depreciation	5,919,911
Provision for bad debts	3,824,201
	$ 93,437,342
Average daily expense (based on 365 days)	$ 255,993
Days cash on hand	140
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.

See accompanying note.

Hospital Service District No. 1 of Tangipahoa Parish, Louisiana

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

June 30, 1998

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 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.