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Slidell Memorial Hospital

***Management's Discussion and Analysis,
Consolidated Financial Statements
and Additional Information as of
December 31, 2003 and 2002
and for the Years Then Ended and
Independent Auditors' Reports***

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

Release Date 8/4/04

SLIDELL MEMORIAL HOSPITAL

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of St. Tammany Parish Hospital Service District No. 2's (Slidell Memorial Hospital or "the Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2003. This should be read in conjunction with the financial statements in this report.

GOVERNANCE

During fiscal 2003, the governance of the Hospital was significantly revised by Act 562 of the 2003 Regular Session of the Louisiana Legislature. Act 562 created a nominating committee to solicit, interview and make nominations for appointment to the Board of Commissioners. The legislation also sets forth an appointing authority of the District, which is a cross-section of representatives of city, parish and state government bodies. The appointing authority appoints the Board of Commissioners from the nominations put forth by the nominating committee. The St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board) is authorized to oversee the assets and govern the operations of the Hospital.

FINANCIAL HIGHLIGHTS

Net patient service revenue increased \$4.7 million or 5% from prior year due primarily to: (1) a 10% across-the-board price increase instituted on September 1, 2003, and (2) a 6% volume increase in catheterization procedures. Operating expenses increased \$4.7 million or 5% from prior year primarily reflected in a \$1 million increase in employee health benefits and \$2 million increase in supplies and materials. In total, the Hospital experienced an increase in 2003's excess of revenues over expenses of \$816,000 as compared to the fiscal year 2002.

The Hospital's total net assets increased by \$840,000 or 2%, from the prior year. This results from the recognition of revenue in excess of expenses for the year of \$840,000. The assets of the Hospital exceeded liabilities at the close of the 2003 fiscal year by \$35 million. Of this amount, \$17 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital District's patients and creditors, and \$13 million is invested in capital assets, net of related debt.

The year 2003 was a transition year for the organization. Until April 7th, 2003, Slidell Memorial Hospital was operating under a definitive agreement to sell the Hospital to Tenet Health System. The Tenet transaction was defeated by public referendum. During the first quarter of 2003, two new physician owned specialty hospitals opened in the primary service area. One of the hospitals is a 48 bed MedCath physician joint venture facility. The other is a 10 bed hospital, urgent care center, and surgery center owned solely by local physicians.

On October 4th, 2003 the voters of the service district passed a property tax to fund a \$22.45 million general obligation bond issue refinancing all three of the hospital revenue bond issues. The cash flow improvements associated with the general obligation issue will not manifest until the actual sale of the bonds. On March 31st, 2004 the hospital closed a refinancing of the first \$8.0 million of the 1994 bonds. Due to certain laws governing tax exempt bonds, the remaining general obligation bonds will not be sold until around August 2004. By issuing general obligation bonds funded by property tax collections, the hospitals operating cash flow is relieved of debt service requirements. As a result of the general obligation issues, management anticipates an additional \$2.7 million cash flow in 2004 and \$5.5 million per year thereafter. Management anticipates using the improved cash flow to rebuild cash reserves and invest in hospital infrastructure and equipment.

In planning for 2003, management conducted a sensitivity analysis showing a range of possible financial outcomes dependent upon the level of volume lost to physician investor based new competition. At the recommendation of the Board's consultant engaged to sell the hospital, the Board of Commissioners adopted the most conservative sensitivity as the 2003 budget. The reader should keep this in mind when reviewing the actual versus budget schedules herein. Actual 2003 EBIDA and Revenue in Excess of Expense exceed not only the Board adopted budget but also the best case sensitivity scenario which was presented to the Board.

The hospital experienced weakness in collection of accounts receivable during 2003. Accounts aged over 90 days increased from 24% to 45% of accounts during fiscal 2003. During March 2004, the hospital executed an amendment to its revenue cycle outsourcing agreement with Siemens Medical Solutions Health Services, Inc. in order to exit the outsourcing relationship and bring the revenue cycle function back in-house locally. It is expected that this transition will take up to six months to complete and, in addition to improving collections, create 30 new jobs in Slidell.

BOND DEBT UPDATE

On April 25, 2002 Ambac Assurance Company (insurer of the Hospital's 1994 bonds) wrote a letter to the Hospital's independent auditor stating that the Hospital was non-compliant with certain covenants of the Trust Indenture and that the Hospital was in breach of a November 28, 2001 agreement supplemental to the Trust Indenture. Further, Ambac expressed "vital interest" in the reporting classification of the Hospital's bonds on the 12/31/01 balance sheet. The bond trustee issued a notice of default on May 2, 2002 at the insistence of the bond insurer. Subsequent to the receipt of Ambac's letter and receipt of the default notice from the trustee, the Hospital's independent auditor issued its report opining that management's classification of the bonds as long-term was not in accordance with generally accepted accounting principles (GAAP). The Hospital obtained two legal opinions and one CPA opinion that the Hospital was in compliance with the Trust Indenture as well as the agreement supplemental to the Trust Indenture and that the bonds are not callable. Based upon these opinions, management previously classified the bonds as long-term debt in accordance with its understanding of GAAP. This matter is discussed more thoroughly in the auditor's report. Ambac has stated to management that Ambac wants to be taken out at par. The Hospital is in compliance with the Trust Indenture covenants and has been for three fiscal years. The Hospital has never missed a bond payment and maintains a one-year debt service reserve fund with the trustee bank.

As described earlier, management intends to refinance all of the bond debt with the voter authorized general obligation bonds. As a result of having such a secure vehicle and intent to refinance, management has opted to reflect the revenue bonds as short term. On March 31st, 2004 the hospital closed a refinancing of the first \$8.0 million of the 1994 bonds with 20 year general obligation bonds. As a result, these bonds are classified as long term in the balance sheet.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components – the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditors' Report, the Consolidated Financial Statements, and Supplementary Information.

The *Consolidated Financial Statements* of Slidell Memorial Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows. The consolidated financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The *Consolidated Balance Sheet* includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the *Consolidated Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Consolidated Statement of Cash Flows* is to provide information about the Hospital's cash from operations, investing, and financing activities. The cash flow statement outlines where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes *Notes to the Consolidated Financial Statements* that are essential to gain a full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the consolidated financial statements is a section containing supplementary information that further explains and supports the information reported in the consolidated financial statements. This section includes optional schedules showing Gross Revenue and Expenses by Cost center as well as statistical information.

FINANCIAL ANALYSIS OF THE HOSPITAL

The consolidated balance sheet and the consolidated statement of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation.

Net Assets

A summary of the Hospital's balance sheets is presented in the following table:

Condensed Consolidated Balance Sheets (In Thousands)

	Fiscal Year 2003	Fiscal Year 2002	Dollar Change	Total % Change
Current and other assets	\$ 36,417	\$ 32,220	\$ 4,197	13 %
Capital assets	<u>42,180</u>	<u>47,319</u>	<u>\$ (5,139)</u>	<u>(11)%</u>
Total assets	<u>\$ 78,597</u>	<u>\$ 79,539</u>	<u>\$ (942)</u>	<u>(1)%</u>
Long-term debt outstanding	\$ 9,893	\$ 30,090	\$ (20,197)	(67)%
Other liabilities	<u>33,523</u>	<u>15,108</u>	<u>18,415</u>	<u>122 %</u>
Total liabilities	<u>\$ 43,416</u>	<u>\$ 45,198</u>	<u>\$ (1,782)</u>	<u>(4)%</u>
Invested in capital assets, net of related debt	\$ 13,110	\$ 13,901	\$ (791)	(6)%
Restricted	5,066	5,450	(384)	(7)%
Unrestricted	<u>17,005</u>	<u>14,990</u>	<u>2,015</u>	<u>13 %</u>
Total net assets	<u>\$ 35,181</u>	<u>\$ 34,341</u>	<u>\$ 840</u>	<u>3 %</u>

As noted above, capital assets decreased 11% due to depreciation recognition and the Hospital's limited ability to invest in replacement and expansion capital projects.

Long term debt decreased 67% primarily due to the classification as a current liability at December 31, 2003 of \$15.8 million of long-term debt which will be refinanced in 2004 and to normal principal payments of \$4.5 million in accordance with the Hospital's debt service schedule. Other liabilities increased 122% as a result of growth in vendor payables necessitated by weak collection of accounts receivable and the reclassification of long-term debt pending refinancing.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2003 and 2002:

Condensed Consolidated Statements of Revenue, Expenses, and Changes in Net Assets (In Thousands)

	Fiscal Year 2003	Fiscal Year 2002
Net patient service revenue	\$ 99,863	\$ 95,151
Other operating revenue excluding interest income	<u>2,197</u>	<u>2,568</u>
Total operating revenues	<u>102,060</u>	<u>97,719</u>
Maintenance and operation expenses	81,743	77,620
Bad debt expense	<u>10,198</u>	<u>9,583</u>
Total operating expenses before depreciation/amortization	<u>91,941</u>	<u>87,203</u>
Earnings before interest depreciation and amortization (EBIDA)	<u>10,119</u>	<u>10,516</u>
Depreciation and amortization expense	<u>6,880</u>	<u>7,503</u>
Operating income	3,239	3,013
Non-operating revenues (expenses):		
Interest income	190	334
Interest expense	(1,960)	(2,209)
Expenses related to proposed restructuring	<u>(629)</u>	<u>(1,114)</u>
Revenues in excess of expenses	840	24
Transfer of Hospice Foundation balances	<u> </u>	<u>(760)</u>
Increase (decrease) in net assets	840	(736)
Total net assets - beginning of year	<u>34,341</u>	<u>35,077</u>
Total net assets - end of year	<u>\$ 35,181</u>	<u>\$ 34,341</u>

Operating Revenue

During fiscal year 2003, the Hospital derived approximately 98% of its total revenues from net patient service revenues. Operating revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended December 31, 2003 and 2002:

	Fiscal Year 2003	Fiscal Year 2002
Medicare	39.6 %	35.8 %
Medicaid	9.4 %	8.0 %
Managed care and commercial insurance	45.2 %	50.4 %
Uninsured	<u>5.8 %</u>	<u>5.8 %</u>
Total gross charges	<u>100.0 %</u>	<u>100.0 %</u>

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2003 and 2002:

- During 2003, the Hospital had 8,071 inpatient admissions. This is a decrease of 4% from fiscal year 2002. The decreased volumes were primarily the result of Ochsner Health Plan closing access to its Medicare HMO in St. Tammany Parish. The new competition didn't cause much volume loss until late in the 4th quarter of 2003.
- Outpatient registrations were 54,594 in 2003. This is a decrease of 1% from fiscal year 2002.
- Emergency registrations were 25,794 in 2003. This is an increase of 2% from fiscal year 2002.
- Net patient service revenue increased \$4.7 million in 2003 due primarily to: (1) a 10% across-the-board price increase instituted on September 1, 2003, and (2) a 6% volume increase in catheterization procedures. The hospital's aggregate average daily charge is in the 95th percentile of non-teaching hospitals, but still below the acute care hospital competition in our primary service area.
- Salaries and wages increased \$450,000 (1.4%), driven primarily by a 3% across the board inflationary pay increase.
- Employee health benefit costs increased by \$1.4 million (16%) driven by an increase in retiree utilization and greater utilization of non-domestic providers.
- Supplies and materials increased approximately 14% compared to 2002 reflecting the rising cost of drugs, implantable devices, and chemotherapy.
- Provision for bad debts increased by \$615,000 (6.42%) due to: (1) the September 1, 2003 price increase of 10%, and (2) the growth in accounts receivable aging.
- Significant nonoperating expenses of \$628,705 were incurred in 2003 related to the Hospital's restructuring efforts. Such costs included consulting fees related to the failed Tenet Health System transaction and costs related to public referendums.

PERFORMANCE AGAINST BUDGET

	FY 2003 Budget	FY 2003 Actual	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue	\$ 85,559	\$ 99,863	\$ 14,304
Other operating revenue	<u>2,159</u>	<u>2,197</u>	<u>38</u>
Total revenues	<u>87,718</u>	<u>102,060</u>	<u>14,342</u>
Operating expenses:			
Salaries, wages and benefits	38,573	42,461	(3,888)
Supplies and other	22,282	26,700	(4,418)
Provision for bad debts	9,482	10,200	(718)
Professional and contractual services	<u>11,876</u>	<u>12,580</u>	<u>(704)</u>
Total operating expenses before depr/amort	<u>82,213</u>	<u>91,941</u>	<u>(9,728)</u>
EBIDA	<u>5,505</u>	<u>10,119</u>	<u>4,614</u>
Interest income	393	190	(203)
Interest expense	(1,980)	(1,960)	20
Depreciation and amortization	(6,910)	(6,880)	30
Non-operating expenses, net	<u>(504)</u>	<u>(629)</u>	<u>(125)</u>
Excess of revenues over expenses	<u>(3,496)</u>	<u>840</u>	<u>4,336</u>
Increase (decrease) in net assets	<u>\$ (3,496)</u>	<u>\$ 840</u>	<u>\$ 4,336</u>

- In comparing actual versus budgeted 2003 results, the reader should consider that budget was derived from the most conservative sensitivity analysis. Sensitivity analysis was performed in 2002 to determine the range of financial performance expected given the new physician owned competition entering the market in 2003. The conservative sensitivity expected a 14% loss of revenue stream related to highly profitable cardiology volumes.
- Actual 2003 financial performance exceeded the best case sensitivity analysis in the areas of Volume, Revenue, EBIDA and Revenue in Excess of Expense. The best case scenario anticipated EBIDA of \$9,801,000 and Revenue in Excess of Expense of \$807,432.

CAPITAL ASSETS

	FY 2003	FY 2002	Dollar Change	Percent Change
Land and land improvements	\$ 4,675	\$ 4,675	\$ -	- %
Building and leasehold improvements	62,172	61,597	575	1 %
Equipment	<u>47,821</u>	<u>50,338</u>	<u>(2,517)</u>	<u>(5)%</u>
Subtotal	114,668	116,610	(1,942)	(2)%
Less: Accumulated depreciation	<u>(72,488)</u>	<u>(69,291)</u>	<u>(3,197)</u>	<u>5 %</u>
Net capital assets	<u>\$ 42,180</u>	<u>\$ 47,319</u>	<u>\$ (5,139)</u>	<u>(11)%</u>

Net capital assets decreased 11% due to continued recognition of depreciation and the Hospital's limited ability to invest in capital assets.

LONG-TERM DEBT

At year-end, the Hospital had \$30.1 million in long-term debt, of which \$20.2 million has been classified as a current liability due to the planned refinancing of bonds in 2004. Total debt represents 69% of the Hospital's total liabilities as of year-end. No new long-term debt was incurred in the current year. More detailed information about the long-term debt is presented in the Notes to the Consolidated Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Hospital's Board and Management considered many factors when setting the fiscal year 2004 budget. Of primary importance in setting the 2004 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Increased competition in the marketplace in the form of physician investor, specialty hospitals
- Medicare reimbursement changes and reductions
- Medicaid reimbursement reductions
- Increased number of uninsured and working poor
- Louisiana charity hospital system uncertainty
- Workforce shortages primarily in nursing and other clinically skilled positions
- Cost of implantable devices
- Cost of drugs
- Access to free cash flow

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This Financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Slidell Memorial Hospital, 1001 Gause Blvd. Slidell, LA 70458.

INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 2:

We have audited the accompanying consolidated balance sheets of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Hospital) as of December 31, 2003 and 2002, and the related consolidated statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Slidell Memorial Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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.

As described in Note 6 to the consolidated financial statements, the Hospital was in violation at December 31, 2000 of certain financial covenants related to its bond indenture and has been unable to negotiate successfully a waiver from the bond insurer since that time. On March 11, 2002, the bond insurer instructed the bond trustee to issue a notice of default even though the Hospital was in compliance with the covenants as of December 31, 2001 and for the year then ended and all required debt service payments had been made. The Hospital has maintained compliance with the bond covenants in 2002 and 2003, as well. The bond insurer maintains that the provisions of the bond trust indenture gives it the right, in view of the default, to demand accelerated repayment of the bonds, among other rights, although it has expressed its intent to not exercise such right at this time. The Hospital has obtained a legal opinion that the insurer can no longer demand acceleration of maturities because of the Hospital's subsequent compliance with the financial covenants. Based on this legal opinion, management classified the bonds scheduled to mature more than 12 months from the balance sheet date as long-term liabilities in the December 31, 2002 balance sheet. On May 29, 2003, the bond trustee issued another notice of default because the 2001 financial statements were not in compliance with generally accepted accounting principles due to the classification of long-term debt. In our opinion, generally accepted accounting principles require that the long-term bonds declared to be in default amounting to \$27,619,808 at December 31, 2002, be classified as a current liability until the bond insurer and trustee formally waive the covenant violations or agree not to demand accelerated repayments, or until such bonds are ultimately refinanced if the bond insurer and trustee fail to take any action. If the reclassification of such debt had been recorded, current liabilities at December 31, 2002 would be increased by \$27,619,808 and long-term debt would be reduced by the same amount. As a result of the planned refinancing of bonds payable in 2004, as further described in Note 6, management has classified \$15,775,933 of bonds originally

scheduled to mature in 2005 and thereafter as a current liability in the December 31, 2003 consolidated balance sheet. Because all of the bonds payable, except for the portion refinanced in March 2004, are reflected as a current liability at December 31, 2003, our exception as to the classification of bonds payable at December 31, 2002, as described above, does not extend to the 2003 financial statements.

In our opinion, except for the effects on the December 31, 2002 balance sheet of not classifying long-term bonds declared to be in default as a current liability as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 is not a required part of the basic consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 13, 2004 on our consideration of Slidell Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte + Touche LLP

April 13, 2004

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,537,144	\$ 4,812,327
Patient accounts receivable, net of allowance for uncollectible accounts of \$8,391,841 in 2003 and \$6,910,418 in 2002, respectively	17,250,322	13,202,225
Assets whose use is limited - required for current liabilities	1,167,307	783,003
Inventories	2,022,426	1,969,162
Prepaid expenses and other receivables	1,461,012	1,485,777
Total current assets	27,438,211	22,252,494
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
By board or under indenture agreement for capital improvements and debt service	7,448,836	8,173,050
By donors	24,185	25,779
Total assets whose use is limited or restricted	7,473,021	8,198,829
CAPITAL ASSETS:		
Land and improvements	4,675,583	4,675,583
Buildings	62,171,994	61,596,959
Equipment	47,820,514	50,337,996
Less accumulated depreciation and amortization	(72,488,510)	(69,291,260)
Total capital assets—net	42,179,581	47,319,278
OTHER ASSETS:		
Bond issuance costs, net of accumulated amortization of \$929,151 in 2003 and \$827,547 in 2002, respectively	941,398	1,043,002
Goodwill, net of accumulated amortization of \$778,925 in 2003 and \$617,633 in 2002, respectively	564,546	725,838
Total other assets	1,505,944	1,768,840
TOTAL	\$ 78,596,757	\$ 79,539,441
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 7,472,022	\$ 5,116,421
Salaries, wages and benefits payable	1,002,161	813,843
Accrued vacation payable	1,253,414	1,099,531
Accrued interest and other expenses	2,644,744	3,075,494
Amounts due to third-party payors	953,750	484,197
Amounts due within one year on capital lease obligations and long-term debt	20,196,451	4,519,010
Total current liabilities	33,522,542	15,108,496
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
CAPITAL LEASE OBLIGATIONS—less amounts due within one year	1,043,262	1,449,906
LONG-TERM DEBT—less amounts due within one year	8,850,000	28,639,807
NET ASSETS:		
Invested in capital assets—net of related debt	13,109,868	13,900,555
Restricted for debt service	5,066,053	5,451,124
Unrestricted	17,005,032	14,989,553
Total net assets	35,180,953	34,341,232
TOTAL	\$ 78,596,757	\$ 79,539,441

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
REVENUES:		
Net patient service revenue	\$ 99,863,289	\$ 95,151,007
Other revenue	<u>2,196,958</u>	<u>2,567,694</u>
Total revenue	<u>102,060,247</u>	<u>97,718,701</u>
OPERATING EXPENSES:		
Salaries and wages	32,704,710	32,252,574
Employee benefits	9,757,611	8,405,645
Supplies and materials	17,731,419	15,543,506
Other direct expenses	8,872,850	8,790,057
Professional fees	5,724,410	5,796,892
Purchased services	6,951,904	6,831,372
Provision for bad debts	10,198,468	9,583,074
Depreciation and amortization	<u>6,880,106</u>	<u>7,502,794</u>
Total expenses	<u>98,821,478</u>	<u>94,705,914</u>
OPERATING INCOME	3,238,769	3,012,787
NONOPERATING REVENUES (EXPENSES):		
Interest income	189,977	333,949
Interest expense	(1,960,320)	(2,208,637)
Expenses related to proposed restructuring and related referendums	<u>(628,705)</u>	<u>(1,113,991)</u>
Total non-operating expenses	<u>(2,399,048)</u>	<u>(2,988,679)</u>
EXCESS OF REVENUES OVER EXPENSES	839,721	24,108
TRANSFER OF HOSPICE FOUNDATION BALANCES	<u> </u>	<u>(759,874)</u>
INCREASE (DECREASE) IN NET ASSETS	839,721	(735,766)
NET ASSETS—Beginning of year	<u>34,341,232</u>	<u>35,076,998</u>
NET ASSETS—End of year	<u>\$ 35,180,953</u>	<u>\$ 34,341,232</u>

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING ACTIVITIES:		
Cash received from patient services	\$ 86,086,277	\$ 87,092,049
Cash paid to or on behalf of employees	(42,120,120)	(40,899,138)
Cash paid for supplies and services	<u>(35,886,820)</u>	<u>(38,021,951)</u>
Net cash provided by operating activities	<u>8,079,337</u>	<u>8,170,960</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,743,945)	(893,250)
Principal payments on long-term debt and capital lease obligations	(4,519,011)	(7,512,993)
Interest payments	(1,991,952)	(2,302,656)
Proceeds from sale of capital assets	<u>362,204</u>	<u>80,556</u>
Net cash used in capital and related financing activities	<u>(7,892,704)</u>	<u>(10,628,343)</u>
INVESTING ACTIVITIES:		
Decrease in assets whose use is limited or restricted	341,504	1,196,117
Interest earned on investments	<u>196,680</u>	<u>386,043</u>
Net cash provided by investing activities	<u>538,184</u>	<u>1,582,160</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	724,817	(875,223)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>4,812,327</u>	<u>5,687,550</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,537,144</u>	<u>\$ 4,812,327</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,238,769	\$ 3,012,787
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	10,198,468	9,583,074
Depreciation and amortization	6,880,106	7,502,794
Gain on sale of capital assets	(95,772)	(58,359)
Transfer of Hospice Foundation balances		(759,874)
Expenses related to restructuring	(628,705)	(1,113,991)
Changes in operating assets and liabilities:		
Patient accounts receivable	(14,246,565)	(10,581,120)
Inventories and other operating assets	(35,201)	(823,529)
Accounts payable and accrued expenses	2,768,237	1,454,711
Other		<u>(45,533)</u>
Net cash provided by operating activities	<u>\$ 8,079,337</u>	<u>\$ 8,170,960</u>

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 AND 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization—St. Tammany Parish Hospital Service District No. 2 (the District), d/b/a Slidell Memorial Hospital (the Hospital), is a nonprofit corporation organized as a political subdivision of the State of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature and as amended by Act 999 of the 1991 Regular Session of the Legislature, Act 570 of the 1992 Regular Session of the Legislature, Act 440 of the 1997 Regular Session of the Legislature, and Act 562 of the 2003 Regular Session of the Legislature. Act 562 created a nominating committee to solicit, interview and make nominations for appointment to the Board of Commissioners. The legislation sets forth an appointing authority of the District, which is a cross-section of representatives of city, parish and state government bodies. The appointing authority appoints the Board of Commissioners from the nominations put forth by the nominating committee. The St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board) is authorized to oversee the assets and govern the operations of the Hospital.

Principles of Consolidation—The consolidated financial statements include the accounts and transactions of the Hospital and its member organizations, Slidell Memorial Health Foundation, Inc. (SMH Foundation), SMH Physician Practice Services, Inc. (Physician Practice Services) and Slidell Radiation Center, Inc. (SRC). See Note 10 regarding the cooperative endeavor agreement transferring the Hospice Foundation in 2002. All material intercompany accounts and transactions have been eliminated in consolidation.

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

Income Tax Status—The Hospital is exempt from federal income tax under both Section 115 of the Internal Revenue Code as a governmental entity and Section 501(a) as a hospital organization as described in Section 501(c)(3). The exemption from federal income taxes also extends to state income taxes. SMH Foundation has been designated as a not-for-profit organization described in Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxation under Internal Revenue Code Section 501(a). Physician Practice Services and SRC are taxable not-for-profit corporations.

Net Patient Service Revenue and Related Receivables—Net patient service revenue and the related accounts receivable are 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 may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Medicare and Medicaid Reimbursement Programs—The Hospital is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology which assigns a per diem rate to each hospital in the peer group.

Home health services rendered to Medicare beneficiaries are reimbursed under a per-episode prospective payment system. Medicaid outpatient services (excluding ambulatory surgery and clinical lab), and Medicare bad debts are reimbursed on a cost basis. Outpatient services rendered to Medicare beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS) which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

Cash and Cash Equivalents—Cash and cash equivalents are recorded at fair value. The Hospital reports short-term, highly liquid investments (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents, excluding amounts classified as assets whose use is limited or restricted on the consolidated balance sheet. As of December 31, 2003 and 2002, the Hospital's cash, cash equivalents and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Hospital's name.

Assets Whose Use is Limited or Restricted—Assets whose use is limited or restricted consists of investments reported at fair value with gains and losses included in the consolidated statements of revenues, expenses and changes in net assets.

Inventories—Inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets—Land, buildings and equipment acquisitions are recorded at cost except for assets donated to the Hospital. Donated assets are recorded at the fair value of the assets at the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payments. Amortization of leased assets is included in depreciation and amortization expense.

Unamortized Bond Issuance Costs—The costs incurred in connection with the issuance of the Hospital's revenue bonds have been deferred and are being amortized over the life of the bond issues. Amortization is included in depreciation and amortization expense.

Goodwill—Goodwill relates to the acquisition of Slidell Radiation Center during 1999 accounted for under the purchase method of accounting. The total purchase price for the underlying assets and goodwill was \$1,700,000 which was financed by issuing \$1,700,000 of notes payable. Goodwill of approximately \$1,350,000 is being amortized on a straight-line basis over approximately 8 years.

Employee Health and Workers' Compensation Insurance—The Hospital is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheets.

Statements of Revenue, Expenses and Changes in Net Assets—All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the statement of revenue, expenses and changes in net assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or investment income.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from third party payors are particularly sensitive estimates subject to change.

New Accounting Pronouncement—Effective January 1, 2002, the Hospital adopted Governmental Accounting Standards Board Statement (GASBS) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASBS No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The adoption of GASBS No. 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the statement, the reclassification of interest income to non-operating revenues, the reclassification of interest expense to non-operating expenses and the change from the indirect to the direct method of reporting cash flows from operating activities.

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

The terms of the Hospital's revenue bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee and funds designated by the Board for capital improvements as of December 31 were as follows:

	2003	2002
Current assets:		
Under bond indenture:		
Bond debt service account	<u>\$ 1,167,307</u>	<u>\$ 783,003</u>
Noncurrent assets:		
Under bond indenture:		
Debt service reserve account	<u>3,898,746</u>	<u>4,668,121</u>
	<u>3,898,746</u>	<u>4,668,121</u>
By board:		
Designated for capital improvements	3,550,090	3,504,929
By donors	<u>24,185</u>	<u>25,779</u>
	<u>\$ 7,473,021</u>	<u>\$ 8,198,829</u>

Statutes authorize the Hospital to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). The Hospital's funds were invested in certificates of deposit and U.S. Government obligations carried at fair value at December 31, 2003 and 2002.

During fiscal 2001, the Board granted management discretion to utilize for other operating purposes those funds designated for capital improvements. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

3. THIRD-PARTY PAYOR ARRANGEMENTS

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2003 and 2002, approximately 49% and 44%, respectively, of the Hospital's gross patient service charges were derived from services provided 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 programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amounts become final. The fiscal intermediary has completed its review of estimated Medicare settlements for fiscal years ended through December 31, 1999 and Medicaid settlements for fiscal years ended through December 31, 1998. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2000 through December 31, 2003 for Medicare and December 31, 1999 through December 31, 2003 for Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates and discounts from established charges.

4. COMMUNITY BENEFITS

As a community health care provider, the Hospital's stated mission is to "serve the community through a commitment to excellence in patient care." As such, total revenue includes that revenue generated from direct patient care, rentals from various medical office buildings, and sundry revenue related to the operation of the Hospital and its member organizations.

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. Charity care provided during the years December 31, 2003 and 2002, measured at established rates, totaled \$8,297,522, net of a \$722,000 government subsidy, and \$4,373,920, net of a \$897,909 government subsidy, respectively.

In addition, the Hospital sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The Hospital has conducted a Community Health Assessment to identify health risks in the community. Through this research, the Hospital has developed wellness and prevention programs that target these high-risk areas for a healthier community.

Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, prostate cancer, smoking cessation, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screening at no cost or a reduced cost to the community. Some health screenings include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital encourages its employees to volunteer for charitable organizations and to participate in fund-raising activities and, in some cases, pays employees to perform public services such as health screenings. In addition, the Hospital aided various community service organizations through donations and sponsorships.

5. LEASES

The Hospital leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenue, expenses and changes in net assets was \$1,121,435 and \$937,624 for the years ended December 31, 2003 and 2002, respectively.

The Hospital also leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*. These capital lease obligations expire at various dates through 2007. The capital asset balances on the consolidated balance sheets include equipment under capital lease obligations of \$2,451,955 and \$4,359,339, less accumulated amortization of \$1,691,191 and \$2,714,710 at December 31, 2003 and 2002, respectively.

The future minimum lease payments at December 31, 2003 for noncancelable leases are as follows:

	Operating Leases	Capital Leases
2004	\$ 614,814	\$ 478,395
2005	577,811	478,395
2006	495,654	478,395
2007	<u>332,867</u>	<u>159,465</u>
	<u>\$2,021,146</u>	1,594,650
Amounts representing imputed interest (interest rates range from 4.8% to 5.67%)		<u>144,744</u>
Present value of capital lease obligations (including \$406,644 classified as amounts due within one year)		<u>\$1,449,906</u>

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements. Rental income earned under these agreements was \$1,241,335 and \$1,269,180 for the years ended December 31, 2003 and 2002.

The future minimum lease payments to be received from noncancelable lease agreements at December 31, 2003 are as follows:

	Operating Leases
2004	\$1,071,232
2005	840,468
2006	681,474
2007	574,420
2008	410,876
Thereafter	<u>393,202</u>
	<u>\$3,971,672</u>

6. LONG-TERM DEBT

The details and balances of long-term debt at December 31 are presented below:

	2003	2002
Hospital Revenue Bonds, Series 1994, described in detail below (\$1,565,000 due in 2004)	\$23,400,000	\$24,880,000
Hospital Revenue Bonds, Series 1996, described in detail below (\$917,822 due in 2004)	2,742,239	3,609,325
Hospital Revenue Bonds, Series 1999, described in detail below (\$1,361,051 due in 2004)	1,477,567	2,772,375
Notes payable to physicians, 7% (\$170,000 due in 2004)	<u>1,020,000</u>	<u>1,190,000</u>
	28,639,806	32,451,700
Less amounts due within one year according to terms of debt instruments	4,013,873	3,811,893
Additional amounts classified as current due to planned 2004 refinancing	<u>15,775,933</u>	<u> </u>
	<u>\$ 8,850,000</u>	<u>\$28,639,807</u>

Hospital Revenue Bonds—On May 5, 1994, the Hospital issued \$35 million of Hospital Revenue Bonds, Series 1994 (the 1994 Revenue Bonds) to finance the cost of constructing improvements to the Hospital and to defease or liquidate outstanding debt. The bonds are collateralized by a pledge of the Hospital's revenue. Proceeds from the 1994 Revenue Bonds were deposited with a trustee and restricted for the purpose described in the Trust Indenture.

At December 31, 2003, the 1994 Revenue Bonds consisted of: (1) \$4,970,000 of serial bonds with interest rates ranging from 5.5% to 6%, payable in annual installments of \$1,565,000 to \$1,750,000 through 2006; (2) \$5,905,000 of 6.125% term bonds due October 1, 2009, with mandatory sinking fund requirements of \$1,855,000 to \$2,085,000 from October 1, 2007 to 2009; (3) \$4,565,000 of 6.125% term bonds due October 1, 2011, with mandatory sinking fund requirements of \$2,215,000 and \$2,350,000 on October 1, 2010 and 2011; and (4) \$7,960,000 of 6.25% term bonds due October 1, 2014, with mandatory sinking fund requirements ranging from \$2,495,000 to \$2,815,000 from October 1, 2012 to 2014. The bonds are subject to redemption prior to maturity, at the option of the Hospital, on or after October 1, 2004, in whole or in part with premiums of up to 2% of the principal balance.

On October 7, 1996, the Hospital issued \$8 million of Hospital Revenue Bonds, Series 1996 (the 1996 Revenue Bonds) to finance the cost of constructing improvements to the Hospital. The 1996 Revenue Bonds bear interest at 5.7% and are payable monthly in equal installments of principal and interest totaling \$87,533. The 1996 Revenue Bonds are subject to the 1994 Trust Indenture and have been issued on a parity with the outstanding 1994 Revenue Bonds. The 1996 Revenue Bonds are subject to redemption prior to maturity, at the option of the Hospital, at any time, in whole or in part with a defined prepayment penalty. Essentially, the prepayment penalty is equal to the economic difference, if any, to the original purchaser of the bonds, of obtaining an equivalent loan at the time of the redemption.

On December 27, 1999, the Hospital issued \$6.2 million of Hospital Revenue Bonds, Series 1999 (the 1999 Revenue Bonds) to finance the acquisition and construction of improvements, renovations and extensions to the Hospital, including, but not limited to, routine capital expenditures for information technology upgrades, radiation oncology vault and other capital equipment. The 1999 Revenue Bonds bear interest at 5% and are payable monthly in equal installments of principal and interest totaling \$117,002 through January 1, 2005. The 1999 Bonds are subject to the 1994 Trust Indenture and have been issued in parity with the outstanding 1994 Revenue Bonds. The 1999 Revenue Bonds are subject to redemption prior to maturity, at the option of the Hospital, at any time, in whole or in part with a defined prepayment penalty. Essentially, the prepayment penalty is equal to the economic difference, if any, to the original purchaser of the bonds, of obtaining an equivalent loan at the time of redemption.

Bond Covenant Violations—In connection with the 1994 Revenue Bonds, the Hospital purchased a bond insurance policy issued by Ambac Assurance Corporation (Ambac) (formerly Connie Lee Insurance Company) which guarantees the scheduled payment of principal and interest on the 1994 Revenue Bonds. Also, the Hospital entered into a Trust Indenture with First National Bank of Commerce (now J.P. Morgan Trust) which stipulates certain terms and covenants, for example, maintenance of certain financial ratios with which the Hospital must comply. The Hospital was not in compliance with the covenants related to debt service coverage and days of cash on hand as of December 31, 2000. The Hospital entered into negotiations with Ambac during 2001 to waive the covenant violations as of December 31, 2000 and modify the defined bond covenants applicable to future years. A proposed Forbearance Agreement dated November 28, 2001 would have provided the necessary waiver in exchange for a mortgage on the Hospital's campus building and equipment. The St. Tammany Parish Council, the Hospital's appointing authority at the time, ultimately agreed to grant a mortgage on the Hospital property; however, Ambac subsequently insisted on the inclusion of certain foreclosure rights in the mortgage document that were unacceptable to the St. Tammany Parish Council. On March 11, 2002, Ambac directed the bond trustee to issue a notice of default as a result of the December 31, 2000 covenant violations; the notice of default was issued on May 2, 2002. Ambac has asserted its rights to control and direct the enforcement of the rights granted the bondholders under the indenture, including its right to accelerate repayment of the bonds. However, Ambac has instructed the trustee to take no further action at this time other than to declare the bonds in default. On May 29, 2003, the bond trustee issued a second notice of default due to Ambac's assertion that the Hospital failed to issue its 2001 financial statements in compliance with generally accepted accounting principles related to classification of long-term debt.

The Hospital was in compliance with the financial covenants imposed by the bond issue as of December 31, 2003, 2002 and 2001 and for the years then ended. Furthermore, the Hospital made all required debt service payments timely and continues to maintain in escrow the debt service reserve funds required by the indenture. Since 2000, the year of the covenant violation, the Hospital has reduced the principal amount of outstanding bonds by \$10,368,539 through scheduled principal payments. The Hospital has obtained a legal opinion that Ambac would be unable to accelerate repayment of the bonds because of the Hospital's subsequent compliance with the financial covenants. Based on this legal opinion, management continued to classify as long-term in 2002 and 2001 bond payments scheduled to mature more than one year beyond the balance sheet date. Based on the aforementioned legal opinion, management intends to vigorously oppose, through the courts if necessary, any effort to accelerate repayment of the bonds. As a result of the planned refinancing of the bonds in 2004, as described below, an additional \$15,775,933 of bonds originally scheduled to mature in 2005 and thereafter have been classified as a current liability in the 2003 consolidated balance sheet.

As indicated in Note 2, the bond trustee maintains funds in a debt service reserve account to provide additional security for the outstanding bonds. As of December 31, 2003, approximately \$3.9 million was held by the trustee in such reserve funds.

Planned Refinancing—In October 2003, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue \$22.45 million of general obligation bonds in 2004 which would be secured by the pledge of dedicated property tax millages. The Hospital intends to issue in 2004 General Obligation Bonds guaranteed by St. Tammany Parish to refinance the 1994, 1996 and 1999 bond issues which would eliminate the dispute over the 2000 covenant violations. Pursuant to this refinancing plan, \$8 million of general obligation bonds were sold in March 2004 and the proceeds were escrowed to be used for bond repayment later in 2004. An additional bond issue amounting to \$14.45 million is scheduled for later in 2004 to precede the October 1, 2004 date at which point the 1994 bonds become callable at the option of the Hospital. Once the proceeds of the second 2004 bond issues are received, the Hospital will use the proceeds of both 2004 issues, together with the debt service reserve funds on deposit with the trustee, to retire the 1994, 1996 and 1999 bonds. Once the bonds are retired in October 2004, the Hospital will write off bond issuance costs related to the outstanding bond issues having an unamortized balance remaining of \$941,398 at December 31, 2003. The 2004 series bonds will have a final maturity date of 2024.

Notes Payable to Physicians—On March 1, 1999, the Hospital acquired all the membership rights of Slidell Radiation Center, a non-profit membership corporation. The Hospital issued \$1,700,000 in notes payable which bear an annual interest rate of 7% and are payable in annual installments of principal and interest of approximately \$170,000 over a period of ten years.

Principal and interest payments due on long term debt (before considering the effects of the planned refinancing of bonds in 2004) are as follows:

Year Ended December 31	Principal	Interest
2004	\$ 4,013,873	\$ 1,721,778
2005	2,913,043	1,536,384
2006	2,772,890	1,383,478
2007	2,025,000	1,257,788
2008	2,135,000	1,250,880
2009 - 2013	11,965,000	3,174,708
2014 - 2018	<u>2,815,000</u>	<u>175,938</u>
	<u>\$28,639,806</u>	<u>\$ 10,500,954</u>

7. EMPLOYEE BENEFITS

The Hospital and its member organizations maintained a qualified noncontributory defined contribution pension plan which provided pension benefits for eligible employees through March of 2002. Beginning in April of 2002, the Hospital began a combination deferred compensation and contributory employee savings plan for qualifying employees. Each employee's interest in the existing plan is fully vested and was transferred over to the new plan. The new pension plan provides an employer match of employee contributions (up to 8%) rather than contributions based on salaries. Employees are eligible to participate in the plan when they have a minimum of one year of continuous service. Participating employees become fully vested immediately in employer contributions and the interest allocated to their accounts.

The total payroll for the years ended December 31, 2003 and 2002 was \$32,704,710 and \$32,252,574, respectively, and the Hospital's contributions under the old pension plan were determined based on covered salaries of \$4,687,565 for the period of January through March of 2002. During the years ended December 31, 2003 and 2002, the Hospital and member organizations made required contributions to the Plan of \$796,862 and \$693,829, respectively. Contributions made to the pension plan in 2002

consisted of contributions made under the old and new pension plans of \$151,977 and \$541,852, respectively.

8. RISK MANAGEMENT

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. The Hospital participates in the Louisiana Hospital Association Trust Fund ("LHA Trust Fund") and the Louisiana Patients' Compensation Fund ("Compensation Fund") for insurance coverage on medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The LHA Trust Fund provides malpractice coverage for claims up to \$100,000 and the Compensation Fund provides an additional \$400,000 of coverage. These funds provide the Hospital with malpractice coverage on an occurrence basis up to the \$500,000 statutory limitation. Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund. LHA Trust Fund insures general liability up to \$1,000,000 per claim. LHA Trust Fund insures excess general liability claims in excess of \$1,000,000 but limited to \$9,000,000 per claim. At December 31, 2003, there were no malpractice accruals, and the Hospital is fully insured based on the statutory limits. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2003 exceeding these coverage limits. 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.

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$120,000 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 carries 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 for workers' compensation and employee health for the years ended December 31, 2003 and 2002 were as follows:

Year Ended December 31	Beginning of year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2003	\$ 720,258	\$ 6,200,673	\$ 5,993,952	\$ 926,979
2002	\$ 755,152	\$ 5,652,775	\$ 5,687,669	\$ 720,258

9. 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 net of contractual allowances at December 31 was as follows:

	2003	2002
Medicare	14 %	13 %
Medicaid	9	2
Insurance/managed care	35	32
Patients	38	51
Other	4	2
	<u>100 %</u>	<u>100 %</u>

10. HOSPICE FOUNDATION COOPERATIVE ENDEAVOR AGREEMENT

On April 5, 2002 the Hospital entered into a Cooperative Endeavor Agreement with the Slidell Memorial Hospice Foundation whereby the Foundation was recognized as an independent foundation existing to facilitate improved hospice care to residents in the Hospital's service area. Concurrently with the execution of the Cooperative Endeavor Agreement, the Hospital surrendered its membership status in the Foundation and transferred net assets previously held on behalf of the Foundation amounting to \$759,874.

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ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Members of the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2:

Our audits were conducted for the purpose of forming an opinion on the consolidated 2003 and 2002 financial statements taken as a whole. The following additional information, as listed on the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information is the responsibility of St. Tammany Parish Hospital Service District No. 2's management. 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 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Deloitte & Touche LLP

April 13, 2004

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION DECEMBER 31, 2003

ASSETS	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.
CURRENT ASSETS:						
Cash and cash equivalents	\$ 5,537,144		\$ 5,381,627	\$ 62,642	\$ 54,127	\$ 38,748
Patient accounts receivable—net	17,250,322		17,219,116		31,206	
Assets whose use is limited—required for current liabilities	1,167,307		1,167,307	603	15,192	
Inventories	2,022,426		2,006,631			
Intercompany receivables		\$ (6,737,669)	6,737,669			
Prepaid expenses and other receivables	1,461,012		1,421,106	29,679	10,227	
Total current assets	<u>27,438,211</u>	<u>(6,737,669)</u>	<u>33,933,456</u>	<u>92,924</u>	<u>110,752</u>	<u>38,748</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:						
By board or under indenture agreement for capital improvements and debt service	7,473,021		7,448,836	24,185		
CAPITAL ASSETS:						
Land and improvements	4,675,583		4,675,583			
Buildings	62,171,994		62,171,994			
Equipment	47,820,514		47,581,804		45,710	193,000
Less accumulated depreciation and amortization	<u>(72,488,510)</u>		<u>(72,350,212)</u>		<u>(34,655)</u>	<u>(103,643)</u>
Total capital assets—net	<u>42,179,581</u>		<u>42,079,169</u>		<u>11,055</u>	<u>89,357</u>
OTHER ASSETS:						
Investment in affiliated organizations		(128,105)	128,105			
Bond issuance costs—net	941,398		941,398			
Goodwill—net	564,546		564,546			
Total other assets	<u>1,505,944</u>	<u>(128,105)</u>	<u>1,634,049</u>			
TOTAL	<u>\$ 78,596,757</u>	<u>\$(6,865,774)</u>	<u>\$ 85,095,510</u>	<u>\$ 117,109</u>	<u>\$ 121,807</u>	<u>\$ 128,105</u>

(Continued)

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION DECEMBER 31, 2003

	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Trade accounts payable	\$ 7,472,022	\$ (6,737,669)	\$ 7,472,022	\$ 771,893	\$ 5,965,776	
Intercompany payables	1,002,161		1,002,161			
Salaries, wages and benefits payable	1,253,414		1,253,414			
Accrued vacation payable	2,644,744		2,644,744			
Accrued interest and other expenses	953,750		953,750			
Amounts due to third-party payors						
Amounts due within one year on capital lease obligations and long-term debt	<u>20,196,451</u>		<u>20,196,451</u>			
Total current liabilities	<u>33,522,542</u>	<u>(6,737,669)</u>	<u>33,522,542</u>	<u>771,893</u>	<u>5,965,776</u>	
CAPITAL LEASE OBLIGATIONS—less amounts due within one year	1,043,262		1,043,262			
LONG-TERM DEBT—less amounts due within one year	8,850,000		8,850,000			
NET ASSETS:						
Invested in capital assets—net of related debt	13,109,868		13,098,813		11,055	
Restricted for debt service and capital projects	5,066,053		5,066,053			
Unrestricted (deficit)	<u>17,005,032</u>	<u>(128,105)</u>	<u>23,514,840</u>	<u>(654,784)</u>	<u>(5,855,024)</u>	<u>\$ 128,105</u>
Total net assets	<u>35,180,953</u>	<u>(128,105)</u>	<u>41,679,706</u>	<u>(654,784)</u>	<u>(5,843,969)</u>	<u>128,105</u>
TOTAL	<u>\$ 78,596,757</u>	<u>\$ (6,865,774)</u>	<u>\$ 85,095,510</u>	<u>\$ 117,109</u>	<u>\$ 121,807</u>	<u>\$ 128,105</u>

(Concluded)

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—REVENUE, EXPENSES AND CHANGES IN NET ASSETS INFORMATION YEAR ENDED DECEMBER 31, 2003

	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Services, Inc.	Slidell Radiation Center, Inc.
REVENUES:						
Net patient service revenue	\$ 99,863,289	\$ -	\$ 99,217,295	\$ 162,161	\$ 483,833	\$ -
Other revenue	<u>2,196,958</u>		<u>2,216,076</u>	<u>69</u>	<u>(19,187)</u>	
Total revenue	102,060,247		101,433,371	162,230	464,646	
OPERATING EXPENSES:						
Salaries and wages	32,704,710		32,328,552	127,328	248,830	
Employee benefits	9,757,611		9,731,987	8,846	16,778	
Supplies and materials	17,731,419		17,726,234	472	4,713	
Other direct expenses	8,872,850		8,794,224	18,854	59,772	
Professional fees	5,724,410		5,724,360		50	
Purchased services	6,951,904		6,898,556		53,348	
Provision for bad debts	10,198,468	739	10,206,480		(8,012)	(739)
Depreciation and amortization	6,880,106	(27,572)	6,876,602		3,504	27,572
Total expenses	98,821,478	(26,833)	98,286,995	155,500	378,983	26,833
OPERATING INCOME	3,238,769	26,833	3,146,376	6,730	85,663	(26,833)
NONOPERATING REVENUES (EXPENSES):						
Interest income	189,977		188,355	1,076	546	
Interest expense	(1,960,320)		(1,960,320)			
Expenses related to proposed restructuring and related referendums	<u>(628,705)</u>		<u>(628,705)</u>			
Total non-operating expenses	(2,399,048)		(2,400,670)	1,076	546	
(DECREASE) INCREASE IN NET ASSETS	839,721	26,833	745,706	7,806	86,209	(26,833)
NET ASSETS (DEFICIT)—Beginning of year	34,341,232	(154,938)	40,934,000	(662,590)	(5,930,178)	154,938
NET ASSETS (DEFICIT)—End of year	\$ 35,180,953	\$ (128,105)	\$ 41,679,706	\$ (654,784)	\$ (5,843,969)	\$ 128,105

Notes

1. The operations of Slidell Radiation Center, Inc. are included in the operating revenues and expenses of the Hospital.

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL DEPARTMENTAL GROSS MARGIN YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003				2002			
	Charges	Direct Operating Expenses	Charges Over Direct Expenses	Gross Margin	Charges	Direct Operating Expenses	Charges Over Direct Expenses	Gross Margin
ROUTINE SERVICES:								
Medical and surgical Intensive and intermediate care	\$ 22,140,436	\$ 6,803,873	\$ 15,336,563	69.3 %	\$ 17,040,453	\$ 6,353,677	\$ 10,686,776	62.7 %
Nursery and NICU	10,165,923	2,712,309	7,453,614	73.3	6,688,277	2,460,051	4,228,226	63.2
Long-term care	2,020,701	1,428,780	591,921	29.3	2,569,021	1,634,819	934,202	36.4
	2,123,544	846,457	1,277,087	60.1	2,549,225	1,113,515	1,435,710	56.3
	<u>36,450,604</u>	<u>11,791,419</u>	<u>24,659,185</u>	<u>67.7</u>	<u>28,846,976</u>	<u>11,562,062</u>	<u>17,284,914</u>	<u>59.9</u>
ANCILLARY SERVICES:								
Anesthesiology	13,324,496	3,925,547	9,398,949	71.3	11,856,317	3,757,084	8,099,233	68.3
Cardiac catheterization	28,191,869	3,610,661	24,581,208	87.2	19,954,517	3,131,322	16,823,195	84.3
Cardiology	5,941,967	522,294	5,419,673	91.2	4,847,379	517,190	4,330,189	89.3
CT Scan/MRI	18,833,676	1,355,602	17,478,074	92.8	13,743,374	1,358,516	12,384,858	90.1
Central services	49,021		49,021	100.0	40,449		40,449	100.0
Delivery room	3,214,899	1,063,128	2,151,771	66.9	2,819,221	994,283	1,824,938	64.7
Emergency room	21,348,994	4,482,538	16,866,456	79.0	17,246,193	4,611,106	12,635,087	73.3
Endoscopy	7,703,084	1,823,378	5,879,706	76.3	6,783,817	1,863,235	4,920,582	72.5
Home care services		(435)	435		755,173	458,412	296,761	39.3
Hyperbaric oxygen	367,940	56,882	311,058	84.5	223,976	35,965	188,011	83.9
Laboratory	36,648,373	3,584,977	33,063,396	90.2	27,557,544	3,095,217	24,462,327	88.8
Nuclear medicine	4,507,532	483,795	4,023,737	89.3	3,119,352	497,285	2,622,067	84.1
Operating and recovery	53,992,356	8,041,987	45,950,369	85.1	43,820,375	7,062,356	36,758,019	83.9
Pharmacy	42,078,234	5,473,759	36,604,475	87.0	31,594,610	4,600,948	26,993,662	85.4
Physical therapy	7,806,633	1,461,680	6,344,953	81.3	6,769,105	1,616,529	5,152,576	76.1
Radiation oncology	6,265,911	1,448,145	4,817,766	76.9	5,314,404	1,428,504	3,885,900	74.4
Radiology	9,764,676	2,011,601	7,753,075	79.4	8,061,723	2,059,849	6,001,874	73.1
Respiratory therapy	18,236,587	1,807,796	16,428,791	90.1	11,747,698	1,570,976	10,176,722	86.6
Ultrasound	2,813,580	378,672	2,434,908	86.5	2,295,205	394,079	1,901,126	82.8
	<u>281,089,828</u>	<u>41,532,007</u>	<u>239,557,821</u>		<u>218,550,432</u>	<u>39,052,856</u>	<u>179,497,576</u>	<u>82.1</u>
	<u>317,540,432</u>	<u>\$53,323,426</u>	<u>264,217,006</u>		<u>247,397,408</u>	<u>\$50,614,918</u>	<u>196,782,490</u>	<u>79.5</u>
Provision for charity and contractual allowances	(218,323,137)		(218,323,137)		(152,797,234)		(152,797,234)	
Net patient service revenue	<u>\$ 99,217,295</u>				<u>\$ 94,600,174</u>			
Other revenue			2,404,431				2,760,655	
			<u>48,298,300</u>				<u>46,745,911</u>	
EXPENSES:								
General services			(5,261,053)				(5,167,482)	
Fiscal and administrative services			(22,619,434)				(21,288,791)	
Provision for bad debts			(10,206,480)				(9,592,660)	
Depreciation and amortization			(6,876,602)				(7,473,885)	
Interest expense			(1,960,320)				(2,208,637)	
Nonoperating expenses			(628,705)				(1,113,991)	
Excess of (deficiency in) revenues over expenses			<u>\$ 745,706</u>				<u>\$ (99,535)</u>	

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION - SCHEDULE OF HOSPITAL PATIENT SERVICE CHARGES YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003			2002			Percentage of Charges to Total Department Charges
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total	
ROUTINE SERVICES:							
Medical and surgical	\$ 21,341,970	\$ 798,466	\$ 22,140,436	\$ 16,263,183	\$ 777,270	\$ 17,040,453	60.7 %
Intensive and intermediate care	10,144,754	21,169	10,165,923	6,630,738	57,539	6,688,277	27.9 %
Nursery and NICU	2,020,701		2,020,701	2,569,021		2,569,021	5.5 %
Long-term care	2,123,544		2,123,544	2,549,225		2,549,225	5.8 %
	<u>35,630,969</u>	<u>819,635</u>	<u>36,450,604</u>	<u>28,012,167</u>	<u>834,809</u>	<u>28,846,976</u>	<u>100.0 %</u>
ANCILLARY SERVICES:							
Anesthesiology	9,499,331	3,825,165	13,324,496	8,819,222	3,037,095	11,856,317	4.7 %
Cardiac catheterization	22,496,303	5,695,566	28,191,869	13,939,580	6,014,937	19,954,517	10.0 %
Cardiology	2,696,603	3,245,364	5,941,967	2,238,418	2,608,961	4,847,379	2.1 %
CT Scan/MRI	5,198,122	13,635,554	18,833,676	3,623,365	10,120,009	13,743,374	6.7 %
Central services	48,231	790	49,021	35,326	5,123	40,449	.0 %
Delivery room	2,525,605	689,294	3,214,899	2,107,703	711,518	2,819,221	1.1 %
Emergency room	4,221,637	17,127,357	21,348,994	3,213,124	14,033,069	17,246,193	7.6 %
Endoscopy	1,485,618	6,217,466	7,703,084	1,159,126	5,624,691	6,783,817	2.7 %
Home care services	79,124	288,816	367,940	38,502	755,173	755,173	0.3 %
Hyperbaric oxygen	21,055,874	15,592,499	36,648,373	16,017,994	185,474	223,976	.1 %
Laboratory	1,798,217	2,709,315	4,507,532	1,321,819	11,539,550	27,557,544	13.0 %
Nuclear medicine	32,576,993	21,415,363	53,992,356	26,790,914	1,797,533	3,119,352	1.6 %
Operating and recovery	33,339,025	8,739,209	42,078,234	25,168,303	17,029,461	43,820,375	19.2 %
Pharmacy	4,187,347	3,619,286	7,806,633	3,613,926	6,426,307	31,594,610	15.0 %
Physical therapy	3,464,408	6,265,911	9,730,319	2,791,857	3,155,179	6,769,105	2.8 %
Radiation oncology	15,688,262	6,300,268	21,988,530	9,653,081	5,314,404	15,314,404	3.7 %
Radiology	901,705	1,911,875	2,813,580	708,891	5,269,866	8,061,723	2.2 %
Respiratory therapy		2,548,325	2,548,325	9,653,081	2,094,617	11,747,698	6.5 %
Ultrasound		1,911,875	1,911,875	708,891	1,586,314	2,295,205	1.1 %
	<u>161,262,405</u>	<u>119,827,423</u>	<u>281,089,828</u>	<u>121,241,151</u>	<u>97,309,281</u>	<u>218,550,432</u>	<u>100.0 %</u>
	<u>\$ 196,893,374</u>	<u>\$ 120,647,058</u>	<u>\$ 317,540,432</u>	<u>\$ 149,253,318</u>	<u>\$ 98,144,090</u>	<u>\$ 247,397,408</u>	<u>100.0 %</u>

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL OPERATING EXPENSES YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003				2002				Percentage of Departmental Expenses to Total Expenses	
	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total		
ROUTINE SERVICES:										
Medical and surgical Intensive and intermediate care	\$ 6,296,653	\$ 449,568	\$ 57,652	\$ 6,803,873	\$ 5,860,448	\$ 398,433	\$ 94,796	\$ 6,353,677	57.7 %	55.0 %
Nursery and NICU Long-term care	2,525,565 1,172,503 691,273	170,445 45,384 23,033	16,299 210,893 132,151	2,712,309 1,428,780 846,457	2,255,533 1,325,374 940,520	172,350 86,863 36,851	32,168 222,582 136,144	2,460,051 1,634,819 1,113,515	23.0 12.1 7.2	21.3 14.1 9.6
	\$ 10,685,994	\$ 688,430	\$ 416,995	\$ 11,791,419	\$ 10,381,875	\$ 694,497	\$ 485,690	\$ 11,562,062	100.0 %	100.0 %
ANCILLARY SERVICES:										
Anesthesiology	\$ 1,696,184	\$ 208,910	\$ 2,020,453	\$ 3,925,547	\$ 1,570,029	\$ 205,607	\$ 1,981,448	\$ 3,757,084	9.5 %	9.6 %
Cardiac catheterization	456,244	2,957,553	196,864	3,610,661	413,424	2,566,792	151,106	3,131,322	8.7	8.0
Cardiology	471,266	23,557	27,471	522,294	467,668	25,747	23,775	517,190	1.3	1.3
CT Scan/MRI	609,013	269,566	477,023	1,355,602	583,637	272,031	502,848	1,358,516	3.3	3.5
Delivery room	916,450	106,419	40,259	1,063,128	866,062	103,336	24,885	994,283	2.6	2.5
Emergency room	1,908,564	204,277	2,369,697	4,482,538	1,914,042	229,413	2,467,651	4,611,106	10.8	11.8
Endoscopy	1,316,087	262,811	244,480	1,823,378	1,294,102	250,883	318,250	1,863,235	4.4	4.8
Home care services		(723)	288	(435)	296,272	46,383	115,757	458,412	1.2	1.2
Hyperbaric oxygen		288	56,594	56,882		406	35,559	35,965	0.1	.1
Laboratory	1,386,844	1,537,353	660,780	3,584,977	1,295,496	1,168,087	631,634	3,095,217	8.6	7.9
Nuclear medicine	170,965	244,742	68,088	483,795	178,064	264,690	54,531	497,285	1.2	1.3
Operating and recovery	1,966,682	5,275,849	799,456	8,041,987	1,923,766	4,341,927	796,663	7,062,356	19.4	18.1
Pharmacy	761,195	4,451,826	260,738	5,473,759	725,443	3,714,800	160,705	4,600,948	13.2	11.8
Physical therapy	1,329,247	88,360	44,073	1,461,680	1,479,155	93,772	43,602	1,616,529	3.5	4.1
Radiation oncology	328,124	5,682	1,114,339	1,448,145	309,981	12,271	1,106,252	1,428,504	3.5	3.7
Radiology	1,399,922	371,083	240,596	2,011,601	1,354,518	405,338	299,993	2,059,849	4.8	5.3
Respiratory therapy	1,344,312	260,633	202,851	1,807,796	1,137,591	242,760	190,625	1,570,976	4.4	4.0
Ultrasound	301,069	7,628	69,975	378,672	336,418	9,883	47,778	394,079	0.9	.0
	\$ 16,362,168	\$ 16,275,814	\$ 8,894,025	\$ 41,532,007	\$ 16,145,668	\$ 13,954,126	\$ 8,953,062	\$ 39,052,856	100.0 %	100.0 %

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL OPERATING EXPENSES YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003				2002				Percentage of Departmental Expenses to Total Expenses	
	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	2003	2002
GENERAL SERVICES:										
Dietary	\$ 616,388	\$ 725,637	\$ 175,148	\$ 1,517,173	\$ 649,298	\$ 720,520	\$ 149,716	\$ 1,519,534	28.8 %	29.4 %
Housekeeping	701,112	105,224	750,573	1,556,909	723,263	116,526	717,755	1,557,544	29.6	30.1
Maintenance	497,288	83,459	492,547	1,073,294	497,313	103,414	497,284	1,098,011	20.4	21.2
Security	103,380	5	12,410	115,795	108,886	393	7,872	117,151	2.2	3.2
Utilities			997,882	997,882			875,242	875,242	19.0	0.2
	\$ 1,918,168	\$ 914,325	\$ 2,428,560	\$ 5,261,053	\$ 1,978,760	\$ 940,853	\$ 2,247,869	\$ 5,167,482	100.0 %	100.0 %
FISCAL AND ADMINISTRATIVE SERVICES:										
Accounting	\$ 329,583	\$ 4,091	\$ 10,898	\$ 344,572	\$ 311,185	\$ 3,184	\$ 10,388	\$ 324,757	1.5 %	1.5 %
Administration	1,028,805	4,603	251,536	1,284,944	875,079	2,650	499,775	1,377,504	5.7	6.5
Admitting		6,745	787,716	794,461	4,598	1,552	772,232	778,382	3.5	3.7
Business office	80	687	2,901,069	2,901,836	7,034	540	2,756,480	2,764,054	12.8	13.0
Case management	390,045	1,002	1,014	392,061	377,961	1,239	4,483	383,683	1.7	1.8
Central Services	261,803	(239,174)	234,031	256,660	246,157	(129,504)	180,008	296,661	1.1	1.4
Children's Learning Center										.0
Fitness Center	265,300	771	3,773	269,844	285,704	1,184	3,500	290,388	1.2	1.4
Human resources	148,387	3,052	234,288	385,727	269,712	2,491	350,775	622,978	1.7	2.9
Information systems	647,194	8,612	1,207,159	1,862,965	779,223	10,886	1,285,722	2,075,831	8.2	9.8
Medical records	787,615	21,735	101,620	910,970	783,747	23,933	85,951	893,631	4.0	4.2
Medical review services	134,768	2,075	3,764	140,607	183,014	1,190	8,722	192,926	0.6	0.9
Patient care services	787,501	3,800	15,188	806,489	721,947	4,737	12,178	738,862	3.6	3.5
Physician recruitment and staff relations	71,081	1,451	26,531	99,063	46,470	815	43,083	90,368	0.4	0.4
Property management	138,393	6,104	506,936	651,433	138,651	261	554,166	693,078	2.9	3.3
Public relations	316,425	10,859	295,269	622,553	415,616	6,737	409,153	831,506	2.8	3.9
Purchasing	203,471	5,855	90,803	300,129	196,492	925	50,697	248,114	1.3	1.2
Training and development	56,480	5,397	33,535	95,412	77,201	7,463	32,298	116,962	0.4	0.5
Collection agency fees			214,710	214,710			229,222	229,222	0.9	1.1
Directors' expenses			9,055	9,055			18,572	18,572	.1	.1
Insurance expenses	6,730,415		1,616,748	8,347,163	5,370,921		1,140,945	6,511,866	36.9	30.6
Pension and retirement	796,863			796,863	693,829			693,829	3.5	3.3
Postage			234,914	234,914			243,183	243,183	1.0	1.1
Professional fees			575,632	575,632			543,836	543,836	2.5	2.6
Telephone			321,371	321,371			328,598	328,598	1.4	2.0
	\$ 13,094,209	\$ (152,335)	\$ 9,677,560	\$ 22,619,434	\$ 11,784,541	\$ (59,717)	\$ 9,563,967	\$ 21,288,791	100.0 %	100.0 %

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL OTHER REVENUE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Rental income	\$ 1,241,335	\$ 1,269,180
Cafeteria sales	309,429	287,355
Donations	15,890	208,298
Fitness center revenue	227,620	232,855
Other revenue	333,677	398,257
Loss of subsidiary	(26,833)	(26,240)
Gain on sale of assets	114,958	57,001
	<u>\$ 2,216,076</u>	<u>\$ 2,426,706</u>

SLIDELL MEMORIAL HOSPITAL

**ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL CAPITAL ASSETS
YEAR ENDED DECEMBER 31, 2003**

	Assets			Accumulated Depreciation				
	January 1, 2003	Additions	Transfers and Deductions	December 31, 2003	January 1, 2003	Additions	Transfers and Deductions	December 31, 2003
Land	\$ 3,597,713	\$ -	\$ -	\$ 3,597,713	\$ -	\$ -	\$ -	\$ -
Land improvements	1,077,870		1,077,870	1,077,870	802,487	28,980		831,467
Buildings	61,596,959	575,035	62,171,994	62,171,994	28,118,711	2,850,050		30,968,761
Equipment	49,573,751	1,168,910	3,160,857	47,581,804	39,870,939	3,712,458	3,033,413	40,549,984
	<u>\$115,846,293</u>	<u>\$1,743,945</u>	<u>\$3,160,857</u>	<u>\$114,429,381</u>	<u>\$68,792,137</u>	<u>\$6,591,488</u>	<u>\$3,033,413</u>	<u>\$72,350,212</u>

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL STATISTICS (UNAUDITED) YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Average census (patients)	107	111
Percentage of occupancy (based on 173 beds)	62.0 %	64.0 %
Average length of stay (acute care patients)	4.6	4.4
Patient days:		
Routine	30,485	29,959
ICU	4,710	4,079
NICU	609	1,173
Rehabilitation	3,350	3,914
Skilled nursing	1,503	1,503
	<u>39,154</u>	<u>40,628</u>
Adjusted patient admissions (*)	13,045	13,975
Adjusted patient days (*)	63,282	67,511
Total number of admissions	8,071	8,410
Total number of admissions (acute care only)	7,778	7,956
Total number of discharges	8,125	8,471
Patient mix based on charges:		
Medicare	39.6 %	35.8 %
Medicaid	9.4 %	8.0 %
Commercial insurance	2.1 %	2.2 %
Managed care	43.1 %	48.2 %
Private pay and other	5.8 %	5.8 %
Total surgical procedures:		
Inpatient	1,774	1,941
Outpatient	2,682	2,777
	<u>4,456</u>	<u>4,718</u>
Emergency visits	25,794	25,341
Full-time equivalents at year end	697.2	728.0

(*) Inpatient days increased for equivalent outpatient volume.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited the financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the "Hospital"), as of and for the year ended December 31, 2003, and have issued our report thereon dated April 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 solely for the information and use of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deloitte & Touche LLP

April 13, 2004