

Management's Discussion and Analysis and Basic Financial Statements

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Years ended June 30, 2003 and 2002 with Report of Independent Auditors

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Management's Discussion and Analysis and
Basic Financial Statements

Years ended June 30, 2003 and 2002

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

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by approximately \$3,836,000, or approximately 2.1%, primarily the net effect of the use of the Hospital's resources to satisfy current obligations. Cash generated by operating activities plus cash provided by investing activities was used to increase capital assets and reduce total liabilities.
- During the year, the Hospital's total operating revenues increased approximately \$11,853,000, or 9%, to \$137,608,000 from the prior year while expenses increased \$11,696,000, or 10%, to \$133,677,000. The Hospital had income from operations of \$3,931,000, which is approximately 3% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$3,774,000 or 3% of operating revenue.
- The Hospital received approximately \$1,977,000 and \$384,600 in 2003 and 2002, respectively, in intergovernmental transfer funds that were offset against Medicaid contractual adjustments resulting in an increase in net patient service revenue.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$11,027,000. The following is a list of significant items:

Capital Investments	2003 Cost
Upgrade computer infrastructure	\$ 690,508
Fourth floor projects (including construction costs, purchase of beds and equipment, architectural fees, and other costs)	3,660,274
Anesthesia machines and monitors	444,100
PACS System	1,749,927
Chemistry Analyzer	377,275
Outpatient Diagnostic Center	1,445,516

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Management's Discussion and Analysis (continued)

The source of the funding for these projects was derived from operations and assets whose use is limited by bond indenture.

Required Financial Statements

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

Financial Analysis of the Hospital

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

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Management's Discussion and Analysis (continued)

Net Assets

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

TABLE 1
Condensed Balance Sheets

	June 30		Dollar Change	Percent Change
	2003	2002		
Total current assets	\$ 39,048,567	\$ 41,067,849	\$ (2,019,282)	(5)%
Capital assets – net	81,701,787	80,007,616	1,694,171	2
Other assets, including board- designated investments	61,074,528	64,585,045	(3,510,517)	(5)
Total assets	<u>\$ 181,824,882</u>	<u>\$ 185,660,510</u>	<u>\$ (3,835,628)</u>	(2)
Current liabilities	\$ 19,239,732	\$ 27,893,004	\$ (8,653,272)	(31)
Long-term debt outstanding and other long-term liabilities	55,744,901	56,664,722	(919,821)	(2)
Total liabilities	74,984,633	84,557,726	(9,573,093)	(11)
Net assets:				
Invested in capital assets, net of related debt	27,229,911	24,185,956	3,043,955	13
Restricted net assets	6,741,359	6,745,520	(4,161)	(–)
Unrestricted net assets	72,868,979	70,171,308	2,697,671	(4)
Total liabilities and net assets	<u>\$ 181,824,882</u>	<u>\$ 185,660,510</u>	<u>\$ (3,835,628)</u>	(2)

As can be seen in Table 1, total assets decreased by approximately \$3,836,000 to \$181,825,000 in fiscal year 2003, from approximately \$185,661,000 in fiscal year 2002. The change in total net assets results due to a reduction of total liabilities and the use of operating cash to fund capital expenditures.

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Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2003 and 2002.

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

	Year ended June 30		Dollar	Percent
	2003	2002	Change	Change
Revenue:				
Net patient service revenue	\$ 135,174,144	\$ 123,449,207	\$ 11,724,937	9%
Other	2,433,455	2,305,890	127,565	6
Total operating revenue	137,607,599	125,755,097	11,852,502	9
Expenses:				
Salaries and employee benefits	83,355,005	75,559,824	7,795,181	10
Supplies, contract services, equipment, and fees	30,197,246	26,699,873	3,497,373	13
Other operating expenses	7,308,230	6,688,988	619,242	9
Depreciation	9,240,647	9,335,282	(94,635)	(1)
Interest	3,575,952	3,697,009	(121,057)	(3)
Total operating expenses	133,677,080	121,980,976	11,696,104	10
Operating income	3,930,519	3,774,121	156,398	4
Investment income	1,806,577	3,336,055	(1,529,478)	(46)
Excess of revenue and investment income over expenses	5,737,096	7,110,176	(1,373,080)	(19)
Increase in restricted net assets	369	627	(258)	(41)
Net assets – beginning of year	101,102,784	93,991,981	7,110,803	8
Net assets – end of year	\$ 106,840,249	\$ 101,102,784	\$ 5,737,465	6

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Management's Discussion and Analysis (continued)

Sources of Revenue

Operating Revenue

During fiscal year 2003, the Hospital derived the majority, or approximately 98%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes cafeteria sales, gift shop sales, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2003 and 2002.

TABLE 3
Payor Mix by Percentage

	Year ended June 30	
	2003	2002
Managed care	20%	20%
Medicare	47	47
Medicare HMO	1	1
Medicaid	22	19
Commercial insurance	6	7
Self-pay and other	4	6
Total patient revenues	100%	100%

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Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes cafeteria sales, rental income, and other miscellaneous services.

TABLE 4
Other Revenue

	Year ended June 30	
	2003	2002
Cafeteria	\$ 917,522	\$ 829,494
Day care	505,591	489,190
Gift shop	334,003	334,917
Rental income	459,425	459,488
X-ray school income	135,025	122,310
Miscellaneous	81,889	70,491
	<u>\$ 2,433,455</u>	<u>\$ 2,305,890</u>

Investment Income

The Hospital holds designated and restricted funds that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$1,806,600 during fiscal year 2003.

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2003 and 2002:

Overall activity at the Hospital, as measured by patient discharges, improved 3.81% to 13,935 discharges in 2003 from 13,423 discharges in 2002. Patient days increased 3.4% over prior year from 72,461 in 2002 to 74,926 in 2003. As a result, the average length of stay for all patients (excluding newborns) decreased to 5.67 days in 2003 from 5.75 days in 2002.

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Management's Discussion and Analysis (continued)

TABLE 5
Patient and Hospital Statistical Data

	Year ended June 30	
	2003	2002
Admissions:		
Adult and pediatric	11,420	10,778
Newborn and NICU	1,367	1,491
Extended care unit	325	402
Psychiatric care	286	287
CMR services	587	528
Patient days:		
Adult and pediatric	54,942	50,255
Medicare (included in adult and pediatric)	30,171	27,038
Medicaid (included in adult and pediatric)	11,611	10,044
Newborn and NICU	5,871	6,000
Extended care unit	4,269	5,197
Psychiatric care	4,032	3,799
CMR services	5,812	7,210
Operating room patients	8,487	8,310
Outpatient registrations	68,320	67,012
Emergency room visits	70,170	65,616
Average daily census:		
Adult and pediatric	151	138
Extended care unit	12	14
Psychiatric care	11	10
CMR services	16	20
Average length of stay (excluding newborn):		
All patients	5.67	5.75
Medicare patients	6.20	6.00
Medicaid patients	3.80	3.70
Extended care unit	12.70	12.80
Psychiatric care	14.10	13.30
CMR services	10.00	13.50
Percentage of total patient days:		
Medicare	58.99%	59.92%
Medicaid	19.99%	18.47%
Home health visits	9,909	12,011
Family medicine clinic	18,952	17,248
Full-time equivalents (FTEs)	1,689	1,606

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Management's Discussion and Analysis (continued)

Increases in net patient service revenue primarily were due to volume increases as depicted on the proceeding page, Table 5, Patient and Hospital Statistical Data. While gross patient revenue increased \$49,931,000, or 17.5%, from prior year due to increased volume and rate increases, net patient service revenue only increased \$11,725,000 due to increases in contractual allowances.

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

TABLE 6
Allowance Summary

	Year ended June 30	
	2003	2002
Allowances:		
Provision for bad debts	\$ 13,283,408	\$ 12,242,968
Other adjustments	5,275,725	3,002,245
Blue Cross, Louisiana State Employees Group benefits, and other contractual allowances	31,450,475	27,484,814
Medicaid contractual allowances	47,802,590	39,259,470
Medicare contractual allowances	102,787,697	80,404,373
	<u>\$200,599,895</u>	<u>\$162,393,870</u>

As a result of increase in revenues, days in accounts receivable increased from 57.7 days to 63.6 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$4,106,900 were forgone during 2003, compared to \$1,405,300 in 2002, or a 192% increase from the prior fiscal year. During 2002, the Hospital adopted a new charity care policy whereby only patients meeting specific criteria were classified as charity care.

Salary expenses increased \$7,111,600, or 11.24%, to \$70,376,500 in 2003 from \$63,264,900 in 2002. As a percentage of net patient service revenue, salary expense was approximately 47.41% and 46.62% for the fiscal years ended June 30, 2003 and 2002, respectively.

Employee benefit expense increased \$683,500, or 5.56%, from prior year. Employee benefit expense represented 18.44% and 19.43% of salary expenses in the current and prior fiscal years, respectively.

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Management's Discussion and Analysis (continued)

Supplies expense increased \$2,468,300, or 14.05%, from prior year. As a percentage of net patient service revenue, supplies expense increased to approximately 13.49% from 12.95% for the fiscal years ended June 30, 2003 and 2002, respectively. This increase was primarily due to cost increases of medical supplies.

Contract services, equipment, and fees increased \$1,029,100, or 11.27%, from prior year. This increase was primarily a result of the costs associated with the termination of the Hospital's management contract.

Other operating expenses increased approximately \$618,900 from prior year, which represents 5% of operating revenue, consistent with the prior year percentage.

Depreciation and interest expense remained relatively flat compared to the prior year.

Total operating expenses increased by \$11,695,700 for the year ended June 30, 2003 for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the board of commissioners and funds held by trustee under bond resolution. The net unrealized gain on market adjustments is also included in this amount. Investment income decreased from the prior year due to use of funds for capital expenditures.

Capital Assets

During fiscal year 2002, the Hospital invested \$11,027,000 in a broad range of capital assets included in Table 7 below.

TABLE 7
Capital Assets

	June 30		Dollar Change	Percent Change
	2003	2002		
Land	\$ 4,119,404	\$ 4,119,404	\$ -	-%
Building and equipment	161,930,059	148,695,358	13,234,701	9
Subtotal	166,049,463	152,814,762	13,234,701	9
Less accumulated depreciation	86,749,918	78,917,436	7,832,482	10
Construction in progress	2,402,242	6,110,290	(3,708,048)	(61)
Net property, plant, and equipment	\$ 81,701,787	\$ 80,007,616	\$ 1,694,171	2

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Management's Discussion and Analysis (continued)

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of building new space to accommodate inpatient services.

In Table 8, the Hospital's fiscal year 2004 capital budget projects spending up to \$17,780,800 for capital projects. These projects will be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 8
Fiscal Year 2004 Capital Budget

Equipment purchases	\$ 5,293,100
Hospital renovations	648,500
Outpatient diagnostic center	8,842,300
Aquatic center	800,000
Prior year approved items	2,196,900
Total	<u>\$ 17,780,800</u>

Long-Term Debt (Excluding Capital Leases)

At year end, the Hospital had \$54,860,000 in short-term and long-term debt. The debt amount is shown net in the balance sheet of the unamortized bond discount of \$590,000. Total debt has decreased by \$1,310,000 in fiscal year 2003, which was the amount of principal payments on outstanding debt for the fiscal year. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 30.27% of the Hospital's total assets at June 30, 2003.

The Hospital issued bonds subsequent to June 30, 2003. In July, \$70,000,000 of Hospital Revenue and Refunding bonds were sold, and in August, an additional \$20,000,000 of bonds were sold. The net proceeds of these sales will be used to fund additions, renovations, and improvements to the Hospital's facilities. Additionally, approximately \$47,500,000 of the Series 1994 bonds were advance refunded.

Contacting the Hospital's Financial Manager

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

Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
(d/b/a North Oaks Medical Center)

We have audited the accompanying balance sheets of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana as of June 30, 2003 and 2002, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the period ended June 30, 2003 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit.

Ernst & Young LLP

September 26, 2003

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Balance Sheets

	June 30	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,792,319	\$ 5,535,489
Short-term investments	700,000	3,800,000
Patient accounts receivable, net of estimated uncollectibles of \$8,091,000 in 2003 and \$8,772,000 in 2002	28,657,844	26,462,009
Current portion of assets whose use is limited	1,978,441	1,977,804
Inventories	2,185,332	1,503,230
Prepaid expenses and other current assets	1,734,631	1,789,317
Total current assets	39,048,567	41,067,849
Assets whose use is limited:		
Under bond indenture agreement held by trustee	6,722,885	6,727,415
By board for plant and equipment additions and replacements	50,237,631	53,924,558
By board for self-insurance claims	1,492,076	1,723,054
	58,452,592	62,375,027
Less current portion of assets whose use is limited	1,978,441	1,977,804
Noncurrent assets whose use is limited	56,474,151	60,397,223
Property, plant, and equipment:		
Land	4,119,404	4,119,404
Buildings and equipment	161,930,060	148,695,358
Construction in progress	2,402,241	6,110,290
	168,451,705	158,925,052
Less accumulated depreciation	86,749,918	78,917,436
Property, plant, and equipment, net	81,701,787	80,007,616
Unamortized debt issuance costs, net	1,405,048	1,472,758
Note receivable	446,489	467,651
Deferred compensation plan investments	2,748,840	2,247,413
Total assets	\$ 181,824,882	\$ 185,660,510

	June 30	
	2003	2002
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 5,893,783	\$ 8,697,894
Accrued salaries and payroll-related costs	5,755,111	5,189,196
Accrued interest payable	1,401,826	1,431,028
Accrued self-insurance claims	3,168,464	4,136,995
Estimated third-party payer settlements – Medicare and Medicaid	1,544,733	7,033,540
Current portion of capital lease obligations	100,815	94,351
Current portion of long-term debt	1,375,000	1,310,000
Total current liabilities	<u>19,239,732</u>	<u>27,893,004</u>
Capital lease obligations, excluding current portion	99,033	191,722
Long-term debt, net of unamortized bond discount of \$590,000 in 2003 and \$634,000 in 2002, excluding current portion	52,897,028	54,225,587
Deferred compensation plan obligations	2,748,840	2,247,413
Total liabilities	<u>74,984,633</u>	<u>84,557,726</u>
Net assets:		
Invested in capital assets, net of related debt	27,229,911	24,185,956
Restricted net assets	6,741,359	6,745,520
Unrestricted net assets	72,868,979	70,171,308
Total net assets	<u>106,840,249</u>	<u>101,102,784</u>
Total liabilities and net assets	<u><u>\$ 181,824,882</u></u>	<u><u>\$ 185,660,510</u></u>

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Statements of Revenue, Expenses, and Changes in Net Assets

	Year ended June 30	
	2003	2002
Revenue:		
Net patient service revenue	\$ 135,174,144	\$ 123,449,207
Other	2,433,455	2,305,890
Total operating revenue	137,607,599	125,755,097
Expenses:		
Salaries	70,376,537	63,264,861
Employee benefits	12,978,468	12,294,963
Supplies	20,033,865	17,565,567
Contract services, equipment, and fees	10,163,381	9,134,306
Other operating expenses	7,308,230	6,688,988
Depreciation	9,240,647	9,335,282
Interest	3,575,952	3,697,009
Total operating expenses	133,677,080	121,980,976
Operating revenue in excess of operating expenses	3,930,519	3,774,121
Investment income	1,806,577	3,336,055
Excess of revenue and investment income over expenses	5,737,096	7,110,176
Increase in restricted net assets	369	627
Net assets – beginning of year	101,102,784	93,991,981
Net assets – end of year	\$ 106,840,249	\$ 101,102,784

See accompanying notes.

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

	Year ended June 30	
	2003	2002
Operating activities		
Revenue collected	\$ 129,922,957	\$ 122,289,298
Cash payments to employees and for employee-related costs	(83,355,005)	(74,796,039)
Cash payments for supplies, services, and other operating expenses	(41,390,790)	(30,011,868)
Cash payments for nonoperating expenses	—	117,980
Net cash provided by operating activities	5,177,162	17,599,371
Capital and related financing activities		
Purchases of property, plant, and equipment	(11,027,328)	(11,814,595)
Proceeds from disposals of assets	124,752	163,627
Principal payments on long-term debt incurred for capital purposes	(1,310,000)	(1,240,000)
Principal payments on capital lease obligations	(86,225)	(1,080,030)
Interest payments on long-term debt and capital lease obligations	(3,450,903)	(3,564,952)
Increase in restricted net assets for guild fund	369	627
Net cash used in capital and related financing activities	(15,749,335)	(17,535,323)
Investing activities		
Investment income	1,806,568	3,336,055
Change in short-term investments	3,100,000	(2,500,000)
(Increase) decrease in assets whose use is limited:		
Under bond indenture agreement	4,530	307,837
By board for plant and equipment	3,686,927	(2,234,230)
By board for self-insurance claims	230,978	(64,512)
Net cash provided by (used in) investing activities	8,829,003	(1,154,850)
Net change in cash	(1,743,170)	(1,090,802)
Cash and cash equivalents at beginning of year	5,535,489	6,626,291
Cash and cash equivalents at end of year	\$ 3,792,319	\$ 5,535,489

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

	Year ended June 30	
	2003	2002
Reconciliation of income from operations to net cash provided by operating activities		
Operating revenue in excess of operating expenses	\$ 3,930,519	\$ 3,774,121
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation	9,240,647	9,335,282
Net (gain) loss on disposals of assets	(32,242)	97,952
Interest expense on long-term debt and capital lease obligations	3,575,952	3,697,009
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,195,835)	(4,000,167)
Inventories, prepaid expenses, and other current assets	(646,354)	(442,461)
Estimated third-party payer settlements	(5,488,807)	514,657
Accounts payable, accrued salaries, and payroll-related costs, and other accrued expenses	(3,206,718)	4,622,978
Net cash provided by operating activities	\$ 5,177,162	\$ 17,599,371

See accompanying notes.

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

June 30, 2003

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital or the District) is a nonprofit public corporation organized under powers granted to parish police juries or councils by Chapter 10, Title 46 of the Louisiana Revised Statutes of 1950, as amended. The District is a political subdivision of the State of Louisiana. All corporate powers are vested in the board of commissioners appointed by the Tangipahoa Parish Council. The District owns and operates North Oaks Medical Center, a 263-bed acute-care hospital, and North Oaks Rehabilitation Hospital, a 45-bed hospital which provides rehabilitation and skilled nursing services. The Hospitals are located on two campuses in the city of Hammond, Louisiana. As a political subdivision of the State of Louisiana, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code and from state income taxes.

Basis of Accounting

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

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

Net Assets

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

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- 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.”

Cash and Cash Equivalents

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

Investments

All investments are stated at fair market value. Changes in the difference between the cost and the fair market value of the investments are included in investment income. Investment income is reported as nonoperating income.

Inventories

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

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

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

Debt Issuance Costs

The Hospital defers costs incurred in connection with the issuance of the bonds and amortizes such costs using the effective interest method over the life of the bond issue. The amortization is included in interest expense.

Self-Insurance Claims

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

Statement of Revenue, Expenses, and Changes in Net Assets

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

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Net Patient Service Revenue and Related Receivables

The Hospital has entered into agreements with third-party payers, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payers, and others for services rendered. Settlements under reimbursement agreements with third-party payers are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or may lack adequate insurance. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risks by regularly reviewing its accounts and contracts and by providing appropriate allowances.

Medicare and Medicaid Reimbursement

The Hospital is reimbursed under the Medicare Prospective Payment System (PPS) which reimburses the Hospital a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Reimbursement is based on Resource Utilization Group (RUG) categories for skilled nursing facilities and Tax Equity & Fiscal Responsibility Act of 1982 (TEFRA) target amounts for rehabilitation and geriatric psychiatric inpatient services. Medicaid inpatient services are paid on a prospective per diem basis.

Medicare bad debts, and Medicaid outpatient services were reimbursed on a tentative basis during the year, which is subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. Retroactive cost 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.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Hospital is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification (APC) based on fixed rates per outpatient procedure and is reimbursed for home health services under the Prospective Payment System (PPS) based on episodes of care adjusted by a case mix adjuster and the applicable geographic wage index.

Use of Estimates

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

Reclassifications

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

2. Cash and Investments

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2003 and 2002. Category (1) includes investments that are insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured or unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Category (2) investments are invested primarily in money market funds that invest in U.S. Government securities. Balances at June 30 were as follows:

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

2. Cash and Investments (continued)

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2003				
Securities type:				
Mutual funds and U.S. backed government obligations	\$	-	\$ 9,128,299	\$ 9,128,299
Cash and cash equivalents, certificates of deposit, and accrued interest receivable				
		53,816,612	-	53,816,612
	\$53,816,612	\$ 9,128,299	\$	\$62,944,911
2002				
Securities type:				
Mutual funds and U.S. backed government obligations	\$	-	\$ 6,103,168	\$ 6,103,168
Cash and cash equivalents, certificates of deposit, and accrued interest receivable				
		65,607,348	-	65,607,348
	\$65,607,348	\$ 6,103,168	\$	\$71,710,516

Louisiana statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. During the years ended June 30, 2003 and 2002, the Hospital invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. The Hospital's investments in U.S. Government obligations are investments held by the Hospital or its agent in the Hospital's name.

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

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

3. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and who are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2003 and 2002 was as follows:

	2003	2002
Medicare 65	3%	2%
Medicare	19	20
Medicaid	10	7
Managed care payers	23	22
Other third-party payers	13	24
Patients	32	25
	100%	100%

4. Assets Whose Use Is Limited

The terms of the Hospital's 1994 Revenue Bonds (see Note 9) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related Bond Resolution. As of June 30, 2003 and 2002, the funds were deposited as follows:

	2003	2002
Bond debt service accounts	\$ 1,978,441	\$ 1,977,805
Reserve accounts	4,744,444	4,749,610
	\$ 6,722,885	\$ 6,727,415

The Hospital's board of commissioners has designated Hospital funds to be used for future plant and equipment additions, separate and apart from the expansion program (see Note 15), and to fund self-insurance claims. These funds, included in assets whose use is limited, were invested in certificates of deposit, U.S. Government obligations, and money market funds at June 30, 2003 and 2002.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

5. Note Receivable

The Hospital entered into an agreement with the Cancer, Radiation, and Research Foundation (the Foundation) for the purpose of constructing a facility that provides radiation oncology treatments on an outpatient basis. Under the terms of the agreement, the Hospital loaned funds to the Foundation to construct the facility on the Hospital campus. The note receivable is payable over 30 years and bears an annual interest rate of 5.5%. The Hospital holds a mortgage on the facility (excluding equipment, furniture, and fixtures) to collateralize the note receivable. In addition, the Hospital agreed to lease the land upon which the facility is located to the Foundation for a nominal annual rental fee. The initial lease term is for 30 years with 3 successive 10-year renewal options.

6. Property, Plant, and Equipment

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2003:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
	<i>(In Thousands)</i>				
Land and land improvements	\$ 4,119	\$ —	\$ —	\$ —	\$ 4,119
Buildings and fixed equipment	97,385	405	—	7,220	105,010
Equipment	51,310	5,314	1,499	1,795	56,920
Construction in progress	6,110	5,308	—	(9,015)	2,403
	158,924	11,027	1,499	—	168,452
Less accumulated depreciation	78,917	9,242	1,409	—	86,750
Property, plant, and equipment, net	\$ 80,007	\$ 1,785	\$ 90	\$ —	\$ 81,702

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

7. Employee Retirement 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 a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code or 25% of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100% over a five-year cliff vesting schedule in all Hospital contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

Retirement expense, included in employee benefit expense, was approximately \$1,161,400 in 2003 and \$1,048,000 in 2002, representing the required contributions in both years.

The Hospital also sponsors two deferred compensation plans covering substantially all employees. These plans were established under Section 457 of the Internal Revenue Code. The Hospital reports the plan assets and a corresponding liability in the accompanying financial statements. Accordingly, the Hospital has recorded an asset and a corresponding liability of \$2,748,800 and \$2,247,400 for the fair market value of the plans' combined assets as of June 30, 2003 and 2002, respectively.

8. Risk Management

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

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

8. Risk Management (continued)

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the Hospital and are currently in various states of litigation. The Hospital has accrued \$1,149,000 and \$1,512,500 as of June 30, 2003 and 2002, respectively, 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 are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

The Hospital has commercial insurance which provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The Hospital had accrued \$2,019,000 and \$2,624,500 at June 30, 2003 and 2002, respectively, for such claims.

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

Year Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2003	\$ 4,137,000	\$ 5,658,000	\$ 6,627,000	\$ 3,168,000
2002	\$ 3,982,000	\$ 7,559,000	\$ 7,404,000	\$ 4,137,000

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

9. Long-Term Debt

The Hospital's long-term debt as of June 30, 2003 and 2002 consisted of bonds payable as follows:

	2003	2002
Hospital Revenue Bonds, Series 1994	\$54,860,000	\$ 56,170,000
Less unamortized bond discount	587,972	634,413
	54,272,028	55,535,587
Less current portion	1,375,000	1,310,000
	\$52,897,028	\$ 54,225,587

Only July 5, 1994, the District issued \$61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The Series 1994 Bonds originally consisted of \$16,190,000 of serial bonds and \$45,345,000 of term bonds. The serial bonds mature annually in amounts ranging from \$1,375,000 in 2004 to \$1,815,000 in 2009 and bear interest at 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 6.40%. Portions of the 1994 bonds were refunded in 2003 (see Note 15). Payments of the scheduled principal and interest on the 1994 Revenue Bonds are insured by AMBAC Indemnity Corporation. Under the terms of the Bond Indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The Hospital was in compliance with these provisions of the Bond Indenture at June 30, 2003.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

9. Long-Term Debt (continued)

The debt service requirements at June 30, 2003 were as follows:

	Principal	Interest
2004	\$ 1,375,000	\$ 3,364,381
2005	1,455,000	3,289,444
2006	1,535,000	3,208,691
2007	1,620,000	3,121,964
2008 – 2012	9,655,000	14,058,630
2013 – 2017	12,985,000	10,721,983
2018 – 2022	17,570,000	6,131,626
2023 – 2024	8,665,000	820,625
Total	<u>\$ 54,860,000</u>	<u>\$ 44,717,344</u>

The market value of the outstanding bonds was approximately \$57,953,900 at June 30, 2003.

10. Capital Lease Obligations

The Hospital has entered into capital lease obligations for certain equipment. Future minimum lease payments, by year, under the capital lease obligation consisted of the following at June 30, 2003:

2004	\$ 111,998
2005	<u>93,329</u>
Total minimum lease payments	205,327
Less amount representing imputed interest	<u>5,479</u>
Present value of net minimum lease payments (including \$100,815 classified as current)	<u><u>\$ 199,848</u></u>

The cost of leased assets included in capital assets totaled \$480,500 and related accumulated amortization was \$254,500. The related equipment collateralizes the capital lease obligations.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

10. Capital Lease Obligations (continued)

The Hospital has entered into various cancelable operating leases for equipment. Operating lease expense was approximately \$527,100 and \$360,200 for the years ended June 30, 2003 and 2002, respectively.

11. 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, 2003 and 2002, approximately 70% and 67%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program and have been recorded in the accounts of the Hospital. Estimated settlements for the years through June 30, 1999 for Medicare and June 30, 1997 for Medicaid have been audited or reviewed by program representatives. No significant differences are anticipated between the estimated settlements recorded and the final settlements expected to be determined by program representatives.

During the years ended June 30, 2003 and 2002, the Hospital recorded \$2,659,200 and \$2,700,000, respectively, as increases to net patient service revenue as a result of final settlements of prior year cost reports.

12. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not recorded as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone, (\$4,106,900 in 2003 and \$1,405,300 in 2002), for services and supplies furnished under its charity care policy.

Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana (d/b/a North Oaks Medical Center)

Notes to Basic Financial Statements (continued)

13. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

14. Commitments

The Hospital has various commitments totaling approximately \$11,839,300 at June 30, 2003. These commitments include renovation of the main building's fourth floor, various computer system upgrades, and various capital equipment purchases.

15. Subsequent Events

The Hospital issued bonds subsequent to June 30, 2003. In July, \$70,000,000 of Hospital Revenue and Refunding Bonds were sold and, in August, an additional \$20,000,000 of bonds were sold. The net proceeds of these sales will be used to fund additions, renovations, and improvement to the Hospital's facilities, exclusive of the commitments described in Note 14. Additionally, approximately \$47,500,000 of the Series 1994 bonds were advance refunded.

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

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

We have audited the financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, (d/b/a North Oaks Medical Center) (the Hospital) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters of the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

September 26, 2003

Independent Auditors' Report on Compliance with Revenue Bond Provisions

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

We have audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Medical Center) (the Hospital) as of June 30, 2003, and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of Sections 208, 401, 402, 501, 504 through 507, 512, 601, 602, 711, 718, 802(a), 802(b), and 1301 of the Composite Bond Resolution relating to the \$13,000,000 Hospital Revenue Bonds (Series 1990) and the \$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 and use of the board of commissioners, management, the bond trustee, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

September 26, 2003

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

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

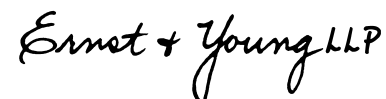
We have reviewed the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense for the year ended June 30, 2003, of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Medical Center) (the Hospital), in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in this schedule is the representation of the management of the Hospital.

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

The Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense is prescribed by Sections 501, 711(e), and 718 of the Composite Bond Resolution relating to the \$13,000,000 Hospital Revenue Bonds (Series 1990) and the \$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, we are not aware of any material modifications that should be made to the accompanying Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense in order for them to be in conformity with the prescribed method described in Note 1.

This report is intended solely for the information and use of the board of commissioners, management, the bond trustee, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



September 26, 2003

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

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

Year ended June 30, 2003

Debt service coverage ratio:	
Net income available for debt service:	
Excess of revenue over expenses	\$ 5,737,456
Add:	
Depreciation	9,240,647
Interest expense	3,575,952
Net income available for debt service	<u>\$ 18,554,055</u>
Maximum annual debt service	<u>\$ 4,744,466</u>
Debt service coverage ratio	<u>3.91</u>
Minimum required debt service coverage ratio per Section 501	<u>1.20</u>
Cash on hand:	
Cash on hand*	<u>\$ 56,222,026</u>
Average daily expense:	
Operating expenses	\$ 133,676,711
Less:	
Depreciation	9,240,647
Provision for bad debts	13,283,408
	<u>\$ 111,152,656</u>
Average daily expense (based on 365 days)	<u>\$ 304,528</u>
Days cash on hand	<u>185</u>
Minimum required days cash on hand per Section 718	<u>45</u>

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

See accountants' review report and accompanying note.

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

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

Year ended June 30, 2003

1. Basis of Presentation

The computation in the Schedule of Debt Service Coverage Ratio, Cash on Hand, and Average Daily Expense is prescribed by Sections 501, 711(e), and 718 of the Composite Bond Resolution relating to the \$13,000,000 Hospital Revenue Bonds (Series 1990) and the \$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.

See accountants' review report.