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MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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

Management's Discussion and Analysis and Basic Financial Statements

Years Ended June 30, 2012 and 2011

Contents

1205-1359627

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Report of Independent Auditors

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

We have audited the accompanying basic financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the District) as of and for the years ended June 30, 2012 and 2011. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the District's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District at June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the District's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

October 17, 2012

1205-1359627

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

Management's Discussion and Analysis

June 30, 2012

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the District), presents background information and management's analysis of the District's financial performance. Please read it in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements of the District report information about the District using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about the District's activities. The balance sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. Increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures changes in the District's operations over the past year and can be used to determine whether the District 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 District'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.

District Consolidated Balance Sheets

A summary of the District's balance sheets is presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	June 30 2012	2011	2010
Total current assets	**$ 87,007,862**	$ 72,215,355	$ 65,358,842
Capital assets – net	**230,228,760**	172,179,266	124,159,146
Other assets, including board-designated investments	**137,192,300**	170,692,140	211,336,630
Total assets	**$ 454,428,922**	$ 415,086,761	$ 400,854,618
Current liabilities	**$ 48,829,962**	$ 38,665,048	$ 31,543,533
Long-term debt outstanding and other long-term liabilities	**205,299,189**	183,134,008	183,387,771
Total liabilities	**254,129,151**	221,799,056	214,931,304
Net assets:			
Invested in capital assets, net of related debt	**37,832,667**	41,781,621	9,717,753
Restricted net assets	**21,424,479**	23,397,989	27,836,669
Unrestricted net assets	**141,042,625**	128,108,095	148,368,892
Total liabilities and net assets	**$ 454,428,922**	$ 415,086,761	$ 400,854,618

Summary of District's Consolidated Income

The following table contains a summary of consolidated income and changes in net assets of the District for the years June 30, 2010 through June 30, 2012:

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

	Year Ended June 30		
	2012	**2011**	**2010**
Revenue:			
Net patient service revenue	**$ 263,480,905**	$ 249,620,219	$ 260,298,545
Other	**3,315,347**	3,110,245	3,421,968
Total operating revenue	**266,796,252**	252,730,464	263,720,513
Expenses:			
Salaries and employee benefits	**166,780,376**	156,624,850	166,302,166
Supplies, contract services, equipment, and fees	**59,691,434**	58,534,724	58,630,711
Other operating expenses	**14,856,515**	13,795,810	13,175,043
Depreciation	**14,160,224**	13,620,172	12,839,722
Interest	**8,680,681**	7,932,029	8,714,442
Total operating expenses	**264,169,230**	250,507,585	259,662,084
Operating income	**2,627,022**	2,222,879	4,058,429
Investment income	**1,890,244**	2,646,712	3,093,717
Other nonoperating income	**2,494,800**	2,494,800	1,822,590
Excess of revenue and income over expenses	**7,012,066**	7,364,391	8,974,736
Net assets at beginning of year	**193,287,705**	185,923,314	176,948,578
Net assets at end of year	**$ 200,299,771**	$ 193,287,705	$ 185,923,314

Financial Analysis of the District

Financial Highlights for the Year Ended June 30, 2012

- The District's total assets increased by approximately $39,342,000, or 10%, during fiscal year 2012. This increase was primarily due to capital investments (listed below) in the facility.

- During the fiscal year, the District made capital investments for a total of approximately $72,254,000. The following is a list of significant items:

Capital Investments	2012 Cost
Medical equipment	$ 3,830,000
Electronic health records information systems	9,046,000
North Oaks Clinic building	8,474,000
Medical Center expansion	39,045,000

  The source of the funding for these projects was derived from operations as well as the 2009A Build America Bond and 2011 bond issuances.

- During the year, the District's total operating revenue increased approximately $14,066,000, or 6%, to $266,796,000 from the prior year. Total operating expenses increased $13,662,000, or 6%, to $264,169,000. The increased expense was related to a $7,202,000, or 6%, labor cost increase as well as an increase of $2,953,000, or 10%, in employee benefits expense. These increases were attributable to an increase in employed physicians. In addition to establishing the Hospitalist program, the District added rheumatology, orthopedics, infectious disease, ophthalmology, and physiatry clinics in fiscal year 2012 to meet community health care needs. The District had income from operations of $2,627,000, which is approximately 1% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately $2,223,000, or 1% of operating revenue.

Financial Highlights for the Year Ended June 30, 2011

- The District's total assets increased by approximately $14,232,000, or 4%, during fiscal year 2011. This increase was primarily due to cash generated by operating and capital investments (listed below) in the facility.

- During the fiscal year, the District made capital investments for a total of approximately $61,623,000. The following is a list of significant items:

Capital Investments	2011 Cost
DaVinci Surgical System	$ 1,660,000
North Oaks Surgery Center	5,861,000
Livingston Parish Medical Complex	8,804,000
North Oaks Clinic building	10,721,000
Medical Center expansion	16,658,000

  The source of the funding for these projects was derived from operations as well as the 2009A Build America Bond issuance (Phase I Expansion).

- During the year, the District's total operating revenue decreased approximately $10,990,000, or 4%, to $252,730,000 from the prior year. One change affecting revenue and reimbursement is that the State Employee Benefit Plan changed from a Humana insurance plan to a Blue Cross insurance plan during fiscal year 2011. Also during the current fiscal year, Medicaid had decreases in inpatient and outpatient services reimbursement of $1,514,000. The District's efforts in labor and supply management resulted in a decrease of total operating expenses of $9,154,000, or 4%, to $250,508,000. The decreased expense was related to a $9,677,000 labor cost decrease. This decrease was a result of a decrease in the number of employees through process redesign and attrition. Although supplies expense increased in fiscal year 2011 due to an increase in surgical procedures performed, the District achieved a cost savings of $1,905,000. The District had income from operations of $2,223,000, which is approximately 1% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately $4,058,000, or 1.5% of operating revenue.

Sources of Revenue

Operating Revenue

During fiscal years 2012, 2011, and 2010, the District derived the majority, approximately 99%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract rates is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the 2012, 2011, and 2010 fiscal years.

TABLE 3
Payor Mix by Percentage

	Year Ended June 30		
	2012	**2011**	**2010**
Managed care	**19%**	18%	19%
Medicare	**54**	53	52
Medicaid	**19**	21	21
Commercial insurance	**4**	4	4
Self-pay and other	**4**	4	4
Total patient revenues	**100%**	100%	100%

Other Revenue

The following table summarizes other revenue:

TABLE 4
Other Revenue

	Year Ended June 30		
	2012	**2011**	**2010**
Cafeteria	**$ 1,283,947**	$ 1,298,319	$ 1,464,167
Day care	**–**	270,870	746,513
Gift shop	**287,461**	326,614	343,418
Rental income	**228,580**	269,929	268,168
X-ray school income	**104,887**	120,420	135,105
Premier purchasing rebates	**615,877**	566,045	591,209
First Health Settlements	**600,623**	–	–
Miscellaneous	**193,972**	258,048	(126,612)
Total other revenue	**$ 3,315,347**	$ 3,110,245	$ 3,421,968

Day care revenue decreased due to the outsourcing of day care services offered to the District's employees starting in fiscal year 2011. First Health Settlements payments were received due to a settlement for underpayments of claims.

Investment Income

As a Hospital Service District governed by the state of Louisiana, the District is authorized by Louisiana statutes to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The District holds designated and restricted funds that are invested primarily in money market funds, certificates of deposit, and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of approximately $1,890,000, $2,647,000, and $3,094,000 during fiscal years 2012, 2011, and 2010, respectively. The decrease in investment income in 2010, 2011, and 2012 was a result of the lower interest rate environment.

Other Nonoperating Income

Other nonoperating income of approximately $2,495,000 in 2012 and in 2011 related to subsidies was received from the U.S. Department of the Treasury related to the 2009A Build America Bonds issued in fiscal year 2010.

Operating and Financial Performance

Overall activity at the District, as measured by patient admissions, decreased 2% to 13,105 admissions in 2012 from 13,438 admissions in 2011. Of this decrease, 1% is attributed to the closing of the Psychiatric Care Unit. Patient days decreased 5% to 70,369 in 2012 from 74,372 in 2011. The average length of stay for all patients (excluding newborns) decreased to 5.3 days in 2012 from 5.5 days in 2011.

Outpatient registrations increased 5% to 111,893 in 2012 from 107,111 in 2011. ER visits remained steady from 2011 to 2012. Clinic visits increased 16% to 195,006 in 2012 from 168,848 in 2011.

Overall activity at the District, as measured by patient admissions, decreased 3% to 13,438 admissions in 2011 from 13,852 admissions in 2010. The decrease in the number of admissions was primarily due to the closing of the Psychiatric Care Unit. Patient days decreased 8% to 74,372 in 2011 from 80,460 in 2010. The average length of stay for all patients (excluding newborns) decreased to 5.5 days in 2011 from 5.8 days in 2010.

Outpatient registrations remained steady from 2010 to 2011. Clinic visits increased 9% to 168,848 in 2011 from 155,214 in 2010.

From an operational perspective, the District continues to focus on quality of patient care and safety, patient and employee satisfaction, and cost reductions.

TABLE 5
Patient and Hospital Statistical Data

	Year Ended June 30		
	2012	**2011**	**2010**
Admissions:			
Adult and pediatric	**12,578**	12,802	12,932
Newborn and Neonatal Intensive Care Unit	**1,446**	1,495	1,557
Psychiatric care*	**–**	117	437
Comprehensive Medical Rehabilitation services	**527**	519	463
Patient days:			
Adult and pediatric	**64,011**	66,827	70,006
Medicare (included in adult and pediatric)	**39,807**	40,960	42,356
Medicaid (included in adult and pediatric)	**11,469**	13,011	13,871
Newborn and Neonatal Intensive Care Unit	**5,534**	6,015	6,284
Psychiatric care*	**–**	1,222	4,391
Comprehensive Medical Rehabilitation services	**6,358**	6,323	6,063
Operating room patients	**11,682**	11,894	10,786
Outpatient registrations	**111,893**	107,111	107,154
Emergency room visits	**70,826**	70,353	69,956
Average daily census:			
Adult and pediatric	**175**	183	192
Psychiatric care*	**–**	10	12
Comprehensive Medical Rehabilitation services	**17**	17	17
Average length of stay (excluding newborn):			
All patients	**5.3**	5.5	5.8
Medicare patients	**6.2**	6.4	6.6
Medicaid patients	**3.7**	4.1	4.3
Psychiatric care*	**–**	9.3	10.1
Comprehensive Medical Rehabilitation services	**12.0**	12.2	13.0
Percentage of total patient days:			
Medicare	**62.19%**	61.3%	60.5%
Medicaid	**17.92%**	19.5%	19.8%
Clinic visits	**195,006**	168,848	155,214
Full-time equivalents (FTEs)	**2,126**	2,061	2,270

*Services were closed in October 2010.

The following summarizes the District's statements of revenue, expenses, and changes in net assets between 2012 and 2011:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net assets. Net patient services revenue represents gross patient revenue, net of allowances.

In 2012, net patient revenue increased by 5.5% to $263.5 million from $249.6 million in 2011. While inpatient volumes decreased in 2012, outpatient visits and clinic visits increased in 2012 primarily due to the expansion of the District's facilities and operations. In addition, Medicaid revenue increased in 2012 due to the increase in the upper payment limit program revenue from approximately $4.0 million in 2011 to $12.0 million in 2012, which accounted for a significant component of the net patient revenue increase in 2012.

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

TABLE 6
Allowance Summary

	Year Ended June 30 2012	2011	2010
Allowances:			
Provision for bad debts	**$ 63,906,050**	$ 52,317,717	$ 43,293,147
Charity care	**7,377,547**	4,121,885	4,895,607
Managed Care and other contractual allowances	**223,096,311**	196,009,828	169,677,816
Medicare Advantage contractual allowances	**198,845,956**	167,809,024	146,174,706
Medicare contractual allowances	**495,329,130**	446,373,873	407,776,849
Medicaid contractual allowances	**260,557,894**	262,235,430	241,875,596
	$ 1,249,112,888	$ 1,128,867,757	$ 1,013,693,721

Provision for bad debts increased approximately $11,588,000, or 22%, to $63,906,000 in 2012 from $52,318,000 in 2011. This 22% increase, compared with a 21% increase between 2011 and 2010, is due to an increase in self-pay revenue and an increase in bad debt write-offs primarily due to economic conditions.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of approximately $7,378,000 were forgone during 2012, compared with $4,122,000 in 2011, or a 79% increase from the prior fiscal year. The increase was due to the increases in charity care applications resulting from the continued slow recovery in the overall economy.

Salaries expense increased approximately $7,202,000, or 6%, to $134,654,000 in 2012 from $127,452,000 in 2011. As a percentage of net patient service revenue, salary expense was approximately 51% for each of the fiscal years ended June 30, 2012 and 2011.

Employee benefit expense increased approximately $2,953,000, or 10%, from the prior year. As a percentage of salaries expense, employee benefit expense was approximately 24% and 23% for the fiscal years ended June 30, 2012 and 2011, respectively. The increase in employee benefit expense was primarily due to increases in employee health insurance costs.

Supplies expense increased approximately $913,000, or 2%, from the prior year. As a percentage of net patient service revenue, supplies expense was 16% and 17% for the fiscal years ended June 30, 2012 and 2011, respectively.

Contract services, equipment, and fees increased approximately $244,000, or 2%, from the prior year.

Other operating expenses increased approximately $1,061,000, or 8%, from the prior year. As a percentage of net operating revenue, other operating expenses were 6% for the fiscal years ended June 30, 2012 and 2011.

Depreciation expense increased approximately $540,000, or 4%, from the prior year. This increase in expense is due to major building additions being placed in service.

Interest expense increased approximately $749,000, or 9%, from the prior year due to the 2011 bond issuance.

Total operating expenses increased by $13,662,000 for the year ended June 30, 2012, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by the trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on fair market value adjustments is also included in this amount. Total investment income decreased from the prior year due primarily to the Federal Reserve Bank lowering its interest rates, which resulted in an overall decrease in interest rates for investments purchased in fiscal year 2012.

The following summarizes the District's statements of revenue, expenses, and changes in net assets between 2011 and 2010:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net assets. Net patient services revenue represents gross patient revenue, net of allowances.

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

TABLE 7
Allowance Summary

	Year Ended June 30 2011	2010	2009
Allowances:			
Provision for bad debts	$ **52,317,717**	$ 43,293,147	$ 48,326,522
Charity care	**4,121,885**	4,895,607	4,625,887
Managed Care and other contractual allowances	**196,009,828**	169,677,816	150,301,048
Medicare Advantage contractual allowances	**167,809,024**	146,174,706	118,001,292
Medicaid contractual allowances	**446,373,873**	407,776,849	353,778,833
Medicare contractual allowances	**262,235,430**	241,875,596	202,387,011
	$ **1,128,867,757**	$ 1,013,693,721	$ 877,420,593

Provision for bad debts increased approximately $9,025,000, or 21%, to $52,318,000 in 2011 from $43,293,000 in 2010. This 21% increase, compared with a 10% decrease between 2010 and 2009, is due to an increase in bad debt reserves for uninsured accounts.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of approximately $4,122,000 were forgone during 2011, compared with $4,896,000 in 2010, or a 16% decrease from the prior fiscal year. The decrease was due to the decreases in charity care applications.

Salaries expense decreased approximately $4,540,000, or 3%, to $127,452,000 in 2011 from $131,992,000 in 2010. As a percentage of net patient service revenue, salary expense was approximately 50% for each of the fiscal years ended June 30, 2011 and 2010.

Employee benefit expense decreased approximately $5,137,000, or 15%, from the prior year. As a percentage of salaries expense, employee benefit expense was approximately 23% and 26% for the fiscal years ended June 30, 2011 and 2010, respectively. The decrease in employee benefit expense was primarily due to decreases in employee health insurance cost and Federal Insurance Contributions Act (FICA) expense related to salaries.

Supplies expense increased approximately $572,000, or 1%, from the prior year. As a percentage of net patient service revenue, supplies expense was 17% and 16% for the fiscal years ended June 30, 2011 and 2010, respectively. The increase was due to an increase in surgical procedures performed.

Contract services, equipment, and fees decreased approximately $668,000, or 4%, from the prior year.

Other operating expenses increased approximately $621,000, or 5%, from the prior year. As a percentage of operating revenue, other operating expenses remained constant at 5% for the fiscal years ended June 30, 2011 and 2010.

Depreciation expense increased approximately $781,000, or 6%, from the prior year. This increase in expense is due to major building additions being placed in service.

Interest expense decreased approximately $782,000, or 9%, from the prior year.

Total operating expenses decreased by $9,155,000 for the year ended June 30, 2011, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by the trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on fair market value adjustments is also included in this amount. Total investment income decreased from the prior year due primarily to the Federal Reserve Bank lowering its interest rates.

Capital Assets

During fiscal years 2012 and 2011, the District invested approximately $72,254,000 and $61,623,000, respectively, in a broad range of property, plant, and equipment included in Table 8 below.

TABLE 8
Property, Plant, and Equipment

	June 30 2012	2011	2010
Land	$ 7,455,974	$ 7,455,974	$ 5,998,809
Building and equipment	320,051,769	292,048,296	260,473,623
Subtotal	327,507,743	299,504,270	266,472,432
Less accumulated depreciation	191,388,259	177,953,445	164,349,794
Construction-in-progress	94,109,276	50,628,441	22,036,508
Net property, plant, and equipment	$ 230,228,760	$ 172,179,266	$ 124,159,146

Net property, plant, and equipment have increased as the District enhanced existing facilities and equipment. The District invested in various construction projects to improve and expand its outpatient and inpatient services. The Livingston Parish Medical Complex, a 48,981 square foot facility, was completed in January 2011. The acquisition of an outpatient surgical center took place in December 2011. A four-floor Medical Clinic Building on campus was completed in January 2012. Also, the Medical Center Phase I Expansion is ongoing.

In Table 9, the District's fiscal year 2013 capital budget projects spending up to $70,956,000 for capital projects. These projects will be financed from operations and bond issuances. The Phase I Expansion will be financed with proceeds from the 2009A Build America Bonds issued in October 2009. More information about the District's capital assets is presented in the notes to the basic financial statements.

TABLE 9
Fiscal Year 2013 Capital Budget

Equipment purchases and facility renovations	$ 3,718,818
Hospital Electronic Health Records information systems	17,134,100
Medical Center Expansion projects	47,595,200
Other projects	2,507,400
Total	$ 70,955,518

Long-Term Debt (Excluding Capital Leases)

In July 2003, $70,000,000 of Hospital Revenue Bonds was sold and $50,000,000 of the bond proceeds was used to refund a portion of the Series 1994 Bonds. In August 2003, an additional $20,000,000 of bonds was sold. The net proceeds of these sales were used to fund additions, renovations, and improvements to the District's facilities. Further, in June 2004, $5,000,000 of Hospital Refunding Bonds was sold. The net proceeds of these sales were used to refund additional amounts of the Series 1994 Bonds.

The District issued $99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds on October 7, 2009. These bonds qualify for a 35% interest payment subsidy from the U.S. Department of the Treasury. These bonds are being used to fund a major expansion program on the North Oaks Medical Center (NOMC) campus involving the construction, installation, and equipping of an approximately 231,281 square foot, five-story wing to be connected to the existing medical center. The NOMC expansion will include the addition of 95 acute care beds with related necessary support services and facilities. The NOMC expansion includes the addition of 14 operating rooms, 21 post-acute recovery units, and 12 new same-day surgery and pre-operative holding rooms. Additional patient beds are for general surgery, orthopedics, neurosurgery, and telemetry and surgical intensive care rooms. The expansion will also include the addition of a central mechanical plant to be equipped with chiller, generator, cooling towers, necessary pumps, heat exchanger, and utility loop connection. Other components include the addition of a helipad and medical gas farm. The remaining portion will include Emergency Room expansion and cafeteria and kitchen expansions.

The District issued $25,000,000 of Bonds, Series 2011 on November 3, 2011. The entire bond issuance was purchased and held by G E Government Finance, Inc. The proceeds of the bonds were used to fund capital expenditures incurred by the District during the construction of the four-story, 88,639 square foot North Oaks Clinic Building which houses physician clinics such as Orthopedic, OB/GYN, Pulmonology, Internal Medicine, ENT, Urology, Rheumatology, Perinatology, Neurology, and Neurosurgery.

At June 30, 2012, the District had approximately $207,106,000 in short-term and long-term debt. Total debt increased by $22,514,000 in fiscal year 2012 from fiscal year 2011 due to the 2011 bond issuance made in 2012.

At June 30, 2011, the District had approximately $184,591,000 in short-term and long-term debt. Total debt increased by $175,000 in fiscal year 2011 from additional $2,167,000 debt assumed through the purchase of a surgery center building and offset by principal payments made in 2011. More detailed information about the District's long-term liabilities is presented in the notes to the basic financial statements.

Contacting the District's Financial Officer

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

Basic Financial Statements

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

Balance Sheets

	June 30 2012	June 30 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 8,260,338	$ 6,664,993
Short-term investments	–	1,400,000
Patient accounts receivable, net of allowance for uncollectibles of $37,086,999 in 2012 and $31,261,504 in 2011	61,910,622	45,008,276
Current portion of designated cash and investments	5,975,601	7,438,532
Estimated third-party payor settlements – Medicare and Medicaid	–	2,072,616
Inventories	5,369,140	4,863,635
Prepaid expenses and other current assets	5,492,161	4,767,303
Total current assets	87,007,862	72,215,355
Designated cash and investments:		
Under bond indenture agreement held by trustee	36,133,905	77,591,601
By Board for plant and equipment additions and replacements	94,728,524	87,144,010
By Board for self-insurance claims	1,672,950	1,667,860
	132,535,379	166,403,471
Less current portion	5,975,601	7,438,532
Noncurrent designated cash and investments	126,559,778	158,964,939
Property, plant, and equipment:		
Land	7,455,974	7,455,974
Buildings and equipment	320,051,769	292,048,296
Construction-in-progress	94,109,276	50,628,441
	421,617,019	350,132,711
Less accumulated depreciation	191,388,259	177,953,445
Property, plant, and equipment, net	230,228,760	172,179,266
Unamortized financing costs, net	9,156,152	9,666,095
Deferred compensation plan investments	772,736	1,016,985
Other assets	703,634	1,044,121
Total assets	$ 454,428,922	$ 415,086,761

	June 30	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 20,860,547**	$ 17,889,587
Accrued salaries and payroll-related costs	**13,009,097**	10,683,152
Accrued interest payable	**4,775,056**	4,364,229
Accrued self-insurance claims	**4,031,152**	3,253,846
Estimated third-party payor settlements – Medicare and Medicaid	**3,575,041**	–
Current portion of capital lease obligations	**68,027**	67,262
Current portion of long-term debt	**2,511,042**	2,406,972
Total current liabilities	**48,829,962**	38,665,048
Capital lease obligations, excluding current portion	**16,614**	85,104
Long-term debt, excluding current portion	**204,509,839**	182,031,919
Deferred compensation plan obligations	**772,736**	1,016,985
Total liabilities	**254,129,151**	221,799,056
Net assets:		
Invested in capital assets, net of related debt	**37,832,667**	41,781,621
Restricted net assets	**21,424,479**	23,397,989
Unrestricted net assets	**141,042,625**	128,108,095
Total net assets	**200,299,771**	193,287,705
Total liabilities and net assets	**$ 454,428,922**	$ 415,086,761

See accompanying notes.

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

Statements of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2012	**2011**
Revenue:		
Net patient service revenue	**$ 263,480,905**	$ 249,620,219
Other	**3,315,347**	3,110,245
Total operating revenue	**266,796,252**	252,730,464
Expenses:		
Salaries	**134,654,067**	127,451,673
Employee benefits	**32,126,309**	29,173,177
Supplies	**43,223,058**	42,310,024
Contract services, equipment, and fees	**16,468,376**	16,224,700
Other operating expenses	**14,856,515**	13,795,810
Depreciation	**14,160,224**	13,620,172
Interest	**8,680,681**	7,932,029
Total operating expenses	**264,169,230**	250,507,585
Income from operations	**2,627,022**	2,222,879
Nonoperating income:		
Investment income:		
Investment income	**2,828,069**	3,841,464
Unrealized gain (loss) on investments	**418,001**	(505,327)
Realized loss on investments	**(1,355,826)**	(689,425)
Total investment income	**1,890,244**	2,646,712
Other nonoperating income	**2,494,800**	2,494,800
Total nonoperating income	**4,385,044**	5,141,512
Excess of revenue and income over expenses	**7,012,066**	7,364,391
Net assets at beginning of year	**193,287,705**	185,923,314
Net assets at end of year	**$ 200,299,771**	$ 193,287,705

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
Operating activities		
Cash collected from patients and third-party payors	**$ 255,541,561**	$ 243,967,218
Cash payments to employees and for employee-related costs	**(163,677,123)**	(155,714,962)
Cash payments for supplies, services, and other operating expenses	**(74,097,500)**	(74,486,863)
Net cash provided by operating activities	**17,766,938**	13,765,393
Capital and related financing activities		
Purchases of property, plant, and equipment	**(66,791,093)**	(49,001,881)
Principal payments on long-term debt incurred for capital purposes	**(2,406,972)**	(2,267,456)
Principal payments on capital lease obligations	**(67,725)**	(62,346)
Interest payments on long-term debt and capital lease obligations	**(11,468,949)**	(11,252,150)
Proceeds from issuance of long-term debt, net of issuance costs and bond insurance	**24,910,009**	2,166,675
Other	**2,494,801**	2,547,045
Net cash used in capital and related financing activities	**(53,329,929)**	(57,870,113)
Investing activities		
Investment income	**2,828,070**	3,841,465
Change in short-term investments	**1,400,000**	(200,000)
Purchases of designated cash and investments	**(95,795,220)**	(30,730,623)
Proceeds from sales and maturities of designated cash and investments	**128,725,486**	69,984,082
Net cash provided by investing activities	**37,158,336**	42,894,924
Net change in cash	**1,595,345**	(1,209,796)
Cash and cash equivalents at beginning of year	**6,664,993**	7,874,789
Cash and cash equivalents at end of year	**$ 8,260,338**	$ 6,664,993

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

Statements of Cash Flows (continued)

	Year Ended June 30	
	2012	**2011**
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	**$ 2,627,022**	$ 2,222,879
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation and amortization	**14,160,224**	13,620,172
Provision for bad debts	**63,906,050**	52,317,717
Amortization of financing costs	**599,934**	611,149
Amortization of premium on long-term debt	**(11,039)**	(11,401)
Interest expense on long-term debt and capital lease obligations	**8,091,785**	7,332,281
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(80,808,396)**	(57,416,002)
Inventories, prepaid expenses, and other assets	**(889,876)**	(1,059,959)
Estimated third-party payor settlements – Medicare and Medicaid	**5,647,658**	(3,664,961)
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	**4,443,576**	(186,482)
Net cash provided by operating activities	**$ 17,766,938**	$ 13,765,393

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (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 (NOMC), licensed for 241 acute care beds; North Oaks Rehabilitation Hospital (NORH), licensed for 27 rehabilitation beds; and 26 primary care and specialty clinics. The hospitals and the clinics are located in both Livingston and Tangipahoa Parishes. As a political subdivision of the state of Louisiana, the District and the hospitals and clinics operated by the District are exempt from federal income taxes under Section 115 of the Internal Revenue Code and from state income taxes.

Basis of Accounting

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

The District 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 District has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by the Board of Commissioners' designation or under trust agreements.

Short-Term Investments

Short-term investments include investments with a maturity date of 12 months or less.

1. Organization and Significant Accounting Policies (continued)

Investments

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income.

Investment income is reported as nonoperating income.

Inventories

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

Property, Plant, and Equipment

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

Unamortized Financing Costs

The District defers costs incurred in connection with the issuance of its bonds and amortizes such costs using the effective interest method over the life of the bond issue. The amortization is included in interest expense. Additionally, the difference between the refunded price of the Series 1994 Bonds and the net carrying amount was deferred. Approximately $4,500,000 has been included in the gross unamortized financing costs and is being amortized as a component of interest expense over the original life of the Series 1994 Bonds.

Self-Insurance Claims

Accrued self-insurance claims represent the District's best estimate of incurred but unpaid expenses for professional and general liability, workers' compensation, and employees' health insurance expense. Unpaid employee health insurance claims for services provided to employees by the District is presented as a reduction to the patient accounts receivable.

1. Organization and Significant Accounting Policies (continued)

Net Assets

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

- Invested in capital assets, net of related debt – This component reports capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted – This component reports those net assets with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted – This component reports net assets that do not meet the definition of either of the other two components: "restricted" or "invested in capital assets, net of related debt."

Statements of Revenue, Expenses, and Changes in Net Assets

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

Other nonoperating income relates to subsidies received from the U.S. Department of Treasury, per the terms of the 2009 bond agreement, to offset interest payments for the 2009A Build America Bonds.

Net Patient Service Revenue and Related Receivables

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

1. Organization and Significant Accounting Policies (continued)

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. These adjustments resulted in a decrease to net patient service revenue of approximately $778,000 in 2012 and an increase to net patient service revenue of approximately $2,188,000 in 2011.

In fiscal year 2012, the District received approximately $110,000 in disproportionate share payments related to high Medicaid utilization and uncompensated care costs. The District also received Upper Payment Limit Program (UPL) payments for Physician Supplemental payments of approximately $4,986,000 and Hospital UPL payments of approximately $7,076,000 during the year ended June 30, 2012. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

In fiscal year 2011, the District received approximately $523,000 in disproportionate share payments related to high Medicaid utilization and uncompensated care costs. The District also had Anticipated Physician Supplemental Payments of approximately $3,101,000 as of June 30, 2011. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

Charity Care

The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges forgone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Medicare and Medicaid Reimbursement

The District is reimbursed under the Medicare Prospective Payment System (PPS), which reimburses the District a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The District is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification (APC) based on fixed rates per outpatient procedure.

1. Organization and Significant Accounting Policies (continued)

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on 69.71% of total cost for 2012 and 2011.

Medicare bad debts, Medicare Disproportionate Share Hospital (DSH) payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year and are subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. It is at least reasonably possible that the recorded estimates will change by material amounts in the near term. 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. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program.

During the years ended June 30, 2012 and 2011, the District's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 73% and 74%, respectively.

Income Taxes

The District is exempt from federal income taxation as a political subdivision of the state of Louisiana and, accordingly, the accompanying financial statements do not include any provision for income taxes.

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 the 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.

2. Cash, Investments, and Designated Cash and Investments

At June 30, cash and investment balances were as follows:

	Maturity	Fair Value
2012		
Securities type:		
U.S.-backed government obligations	2011–2015	$ 35,916,557
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		104,879,160
		$ 140,795,717
2011		
Securities type:		
U.S.-backed government obligations	2011–2015	$ 77,125,738
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		97,342,726
		$ 174,468,464

The table below reconciles the cash, investments, and designated cash and investments, by security type to the amounts recorded on the balance sheet at June 30:

	Balance Sheet Classification				
	Cash and Equivalents	Short-Term investments	Designated Investments – Current	Designated Investments – Long-Term	Total
2012					
U.S. backed government obligations	$ –	$ –	$ –	$ 35,916,557	$ 35,916,557
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	8,260,338	–	5,975,601	90,643,221	104,879,160
	$ 8,260,338	$ –	$ 5,975,601	$ 126,559,778	$ 140,795,717
2011					
U.S. backed government obligations	$ –	$ –	$ –	$ 77,125,738	$ 77,125,738
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	6,664,993	1,400,000	7,438,532	81,839,201	97,342,726
	$ 6,664,993	$ 1,400,000	$ 7,438,532	$ 158,964,939	$ 174,468,464

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

Louisiana statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The District has a policy for the composition of asset allocation and specific allocation of funds as outlined below, and the result is that maturity terms are staggered.

	Desired Percentage Range of Overall Portfolio
Type of investment:	
Certificates of deposit	0% to 100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%
Treasury funds	0% to 100%
Bonds or notes – issued or guaranteed by federal agencies or government instrumentalities (which are federally sponsored)	0% to 100%
Mutual funds (100% government-backed)	0% to 25%
Term of investments:	
0 to 6 months	0% to 100%
6 months to 1 year	0% to 100%
1 year to 5.5 years	0% to 100%
5.5 years to 10 years	0% to 30%
Greater than 10 years, but less than 20 years	0% to 30%

During the years ended June 30, 2012 and 2011, the District invested primarily in securities issued by the U.S. Treasury and other federal agencies.

Credit Risk – Investments

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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

Concentration of Credit Risk

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5% of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At June 30, 2012 and 2011, the District had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by Federal Deposit Insurance Corporation (FDIC) insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by FDIC insurance. As of June 30, 2012, $106,107,000 of the District's bank balances of $107,130,000 was collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012 and 2011, the District was not exposed to custodial credit risk for its investments, as all were registered in the name of the District.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2012:

		Years		
Investment Type	**Fair Value**	**< 1**	**1–5**	**> 5**
U.S.-backed government obligations	$ 23,979,266	$ 23,979,266	$ –	$ –
U.S.-backed government obligations	11,937,291	–	11,937,291	–
Total	$ 35,916,557	$ 23,979,266	$ 11,937,291	$ –

The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2011:

		Years		
Investment Type	**Fair Value**	**< 1**	**1–5**	**> 5**
U.S.-backed government obligations	$ 61,835,542	$ 61,835,542	$ –	$ –
U.S.-backed government obligations	15,290,196	–	15,290,196	–
Total	$ 77,125,738	$ 61,835,542	$ 15,290,196	$ –

3. Concentration of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	45%	59%
Medicaid	15	8
Other (managed care, commercial, self-pay)	40	33
	100%	100%

4. Designated Cash and Investments

The terms of the District's Revenue Bonds (see Note 8) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, 2012 and 2011, the funds were deposited as follows:

	2012	2011
Bond principal account	$ 933,398	$ 891,737
Bond interest account	5,259,453	6,981,701
Bond construction account	14,709,428	54,193,612
Reserve accounts and other	15,231,626	15,524,551
	$ 36,133,905	$ 77,591,601

The District'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 11), and to fund self-insurance claims. These funds were invested in certificates of deposit, U.S. government obligations, and money market funds at June 30, 2012 and 2011.

5. Property, Plant, and Equipment

The District's investment in property, plant, and equipment consisted of the following as of June 30, 2012:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	$ 7,456	$ –	$ –	$ –	$ 7,456
Buildings and fixed equipment	186,876	1,704	(43)	19,830	208,367
Equipment	105,172	5,708	(726)	1,531	111,685
Construction-in-progress	50,628	64,842	–	(21,361)	94,109
	350,132	72,254	(769)	–	421,617
Less accumulated depreciation	177,953	14,160	725	–	191,388
Property, plant, and equipment, net	$ 172,179	$ 58,094	$ (44)	$ –	$ 230,229

The District's investment in property, plant, and equipment consisted of the following as of June 30, 2011:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	$ 5,998	$ 1,458	$ –	$ –	$ 7,456
Buildings and fixed equipment	165,396	6,395	–	15,085	186,876
Equipment	95,077	10,095	–	–	105,172
Construction-in-progress	22,038	43,675	–	(15,085)	50,628
	288,509	61,623	–	–	350,132
Less accumulated depreciation	164,350	13,603	–	–	177,953
Property, plant, and equipment, net	$ 124,159	$ 48,020	$ –	$ –	$ 172,179

During 2012 and 2011, the District capitalized approximately $3,788,000 and $3,877,000, respectively, of interest expense.

6. Employee Retirement Plan

The District has a defined contribution plan that covers all full-time employees who elect to participate after they have met certain eligibility requirements. Under the plan, the District 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 (IRC) 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 District 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 $3,429,000 and $3,341,000 in 2012 and 2011, respectively, representing the required contributions in both years.

The District also sponsors two deferred compensation plans covering substantially all employees. These plans were established under Section 457 of the IRC. The District reports the plan assets and a corresponding liability in the accompanying financial statements. Accordingly, the District has recorded an asset and a corresponding liability of $773,000 and $1,017,000 for the fair market value of the plans' combined assets as of June 30, 2012 and 2011, respectively.

7. Risk Management

The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice coverage to the District 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 District will be prevented from continuing its participation in the Fund.

The District is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the District and are currently in various states of litigation. The District accrued approximately $2,058,000 and $1,622,000 as of June 30, 2012 and 2011, respectively, for the estimated losses and expenses related to general and professional liability claims for which the District 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

7. Risk Management (continued)

asserted against the District arising from services provided to patients. The District 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 District has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately $1,974,000 and $1,632,000 at June 30, 2012 and 2011, respectively, for employee health insurance and workers' compensation 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
2012	**$ 3,254,000**	**$ 26,224,000**	**$ 25,447,000**	**$ 4,031,000**
2011	3,876,000	21,005,000	21,627,000	3,254,000

8. Long-Term Debt and Capital Lease Obligations

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

	June 30	
	2012	**2011**
Hospital Revenue Bonds, Series 2003A	**$ 61,245,000**	$ 63,385,000
Hospital Revenue Bonds, Series 2003B	**19,600,000**	19,800,000
Hospital Revenue Bonds, Series 2009A	**99,000,000**	99,000,000
Bonds, Series 2011	**25,000,000**	–
North Oaks Surgery Center Loan	**2,067,247**	2,134,218
Capital leases	**84,642**	152,366
Total	**206,996,889**	184,471,584
Plus unamortized bond premium on 2004 and 2003 bonds	**108,635**	119,673
	207,105,524	184,591,257
Less current portion	**2,579,069**	2,474,234
Long-term debt, less current maturities	**$ 204,526,455**	$ 182,117,023

On July 5, 1994, the District issued $61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The Series 1994 Bonds originally consisted of $16,190,000 of serial bonds and $45,345,000 of term bonds. Portions of the 1994 bonds were repaid in 2003 and 2004.

On July 2, 2003, the District issued $70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A. Approximately $50,000,000 of the Series 2003A Bond proceeds was used to repay a portion of the Series 1994 Bonds. The Series 2003A Bonds originally consisted of $24,080,000 of serial bonds and $45,920,000 of term bonds. The serial bonds mature annually in amounts ranging from $700,000 in 2007 to $2,895,000 in 2018 and bear interest at rates ranging from 2.75% to 5.375%. The term bonds consist of $24,095,000 due February 1, 2025, bearing interest at 5%, and $21,825,000 due February 1, 2030, bearing interest at 5%. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2012.

8. Long-Term Debt and Capital Lease Obligations (continued)

On August 28, 2003, the District issued $20,000,000 of Hospital Revenue Bonds, Series 2003B. These serial bonds were to mature annually in amounts ranging from $2,625,000 in 2030 to $5,920,000 in 2033 at variable interest rates not to exceed 12%. The Series 2003B Bonds were deemed to be demand bonds and, under the terms of the indenture, bond holders had the option to tender to the trustee the outstanding bonds for repurchase.

On September 10, 2009, the District entered into a transaction with a financial institution whereby the financial institution purchased the Series 2003B Bonds on the open market. The District is still obligated to repay the 2003B Bonds with a final maturity date 24 years after closing. The financial institution shall have the right to remarket the bonds at par at the end of the 5th, 10th, 15th, and 20th year after the closing. As a result of the transaction, the debt service requirements of the District were amended, resulting in annual principal payments in varying increments beginning in 2011 through 2033. In addition, the interest rate was modified to be a variable rate based on 65% of the London Interbank Offered Rate (LIBOR) plus 2.5% with a LIBOR floor of 2.0%. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2012. The bond repurchase transaction increased the remaining projected cash outflows for the remaining term of the debt to $36,753,000 from $24,921,185 prior to the transaction.

On June 30, 2004, the District issued $5,000,000 of Hospital Revenue and Refunding Bonds, Series 2004. The net proceeds of these bonds were used to repay additional amounts of the Series 1994 Bonds. These serial bonds mature annually in amounts ranging from $1,015,000 in 2007 to $1,145,000 in 2010, bearing interest at 3.34%. The District paid off all 2004 Bonds in fiscal year 2010.

On October 7, 2009, the District issued $99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds with a coupon interest rate of 7.2%. These bonds qualify for a 35% interest payment subsidy from the U.S. Department of the Treasury. During 2011, the District received approximately $2,495,000 of subsidies, which have been recorded as nonoperating revenue in the statement of revenue, expenses, and changes in net assets. These bonds will fund the major expansion program on the NOMC campus. These bonds mature annually in amounts ranging from $1,170,000 in 2030 to $12,390,000 in 2042. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2012.

8. Long-Term Debt and Capital Lease Obligations (continued)

On December 31, 2010, the District acquired a surgery center building by assuming a loan in the amount of $2,166,675 at an interest rate of 5.39%. The principal balance on the loan is due in October 2014 for approximately $1,895,000. The District may refinance the loan upon the expiration of the existing loan.

On November 3, 2011, the District issued $25,000,000 of Hospital Revenue Bonds, Series 2011. These bonds mature annually beginning in 2014 through 2027 in amounts ranging from $1,345,000 to $2,305,000 and bear interest at a fixed annual rate of 4.36%. The Series 2011 bonds are callable for redemption at any time prior to their stated maturities at the option of the District, at whole but not in part, at the principle amount thereof, including accrued interest at the redemption due, plus a premium of up to 5%, depending on the date of redemption.

As of June 30, 2012, the District had two outstanding capital leases as reflected above. The obligation on the first lease with GE Healthcare was $66,442 ($60,669 current and $5,773 long-term). The second lease was with Immucor and had a total obligation of $18,199 ($7,358 current and $10,841 long-term).

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2012, were as follows:

	Principal	Interest
2013	$ 2,440,000	$ 12,435,279
2014	3,900,900	12,313,298
2015	4,075,000	12,121,415
2016	4,670,000	11,911,615
2017	5,070,000	11,667,337
2018–2022	29,030,000	54,340,825
2023–2027	36,445,000	46,478,072
2028–2032	25,720,000	37,814,774
2033–2037	36,850,000	29,486,652
2038–2042	56,645,000	12,608,640
	$ 204,845,900	$ 241,177,907

8. Long-Term Debt and Capital Lease Obligations (continued)

Included in the estimated interest payments in the table above is approximately $64.5 million of interest for the Series 2009 Build America Bonds that is estimated to be received by the District as a subsidy from U.S. Department of Treasury over the remaining term of the bonds.

9. Charity Care

The District maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges forgone, approximately $7,378,000 and $4,122,000 in 2012 and 2011, respectively, for services and supplies furnished under its charity care policy.

10. 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, 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 District is in compliance with fraud and abuse laws and regulations, 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.

11. Commitments

The District has various commitments totaling approximately $44,542,000 and $58,914,000 at June 30, 2012 and 2011, respectively. These commitments include expansion of North Oaks Medical Center and various capital equipment purchases.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed 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 Health System) (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This communication is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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.

Ernst + Young LLP

October 17, 2012

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Independent Auditors' Report on Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 Health System) (the District) as of June 30, 2012, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 17, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Section 303(K) of the Supplemental Resolution relating to the $90,000,000 Hospital Revenue Bonds (Series 2003) and the $99,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by the District on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, August 27, 2003, August 27, 2008, August 26, 2009, and September 30, 2009, and Section 4.03 of the Supplemental Resolution dated October 26, 2011; related to the $25,000,000 Hospital Revenue Bonds (Series 2011), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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 debt-to-capitalization ratio in order for it 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, and the bond trustee, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 17, 2012

1205-1359620

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

Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio (Unaudited)

Year Ended June 30, 2012

Debt service coverage ratio:	
Net income available for debt service:	
Excess of revenue and income over expenses	$ 7,012,066
Less unrealized gain	(418,001)
Add:	
Depreciation	14,160,224
Interest expense	8,680,681
Net income available for debt service	$ 29,434,970
Maximum annual debt service	$ 16,748,429
Debt service coverage ratio	1.76
Minimum required debt service coverage ratio per Section 303(K)(2)	1.20
Cash on hand*	$ 104,661,812
Average daily expense:	
Operating expenses	$ 264,169,230
Less depreciation	14,160,224
	$ 250,009,006
Average daily expense (based on 366 days)	$ 683,085
Days cash on hand	153.22
Minimum required days cash on hand per Section 303(K)(3)	90.00
Debt-to-capitalization ratio:	
Long-term debt	$ 207,105,522
Net assets	185,068,145
Total long-term debt and net assets	$ 392,172,667
Long-term debt divided by the total of long-term debt plus net assets	53%
Debt-to-capitalization requirement per Supplemental Resolution Section 303(K)(8)	60%

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

See accompanying note.

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

Note to Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio (Unaudited)

Year Ended June 30, 2012

1. Basis of Presentation

The computation in the schedule of debt service coverage ratio, cash on hand, and debt-to-capitalization ratio is prescribed by Section 303(K) of the Supplemental Resolution relating to the $90,000,000 Hospital Revenue Bonds (Series 2003) and the $99,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, August 27, 2003, August 27, 2008, August 26, 2009, and September 30, 2009, and Section 4.03 of the Supplemental Resolution dated October 26, 2011; related to the $25,000,000 Hospital Revenue Bonds (Series 2011),.

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Independent Auditors' Report on Compliance With Revenue Bond Provisions

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

We have audited the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the District) as of June 30, 2012, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 17, 2012. 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 District failed to comply with the terms, covenants, provisions, or conditions of Section 303(K) of the Supplemental Resolution relating to the $90,000,000 Hospital Revenue Bonds (Series 2003) and the $99,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by the District on May 18, 1994, June 22, 1994, March 26, 2003, June 25, 2003, August 27, 2003, August 27, 2008, August 26, 2009, and September 30, 2009, and Section 4.03 of the Supplemental Resolution dated October 26, 2011; related to the $25,000,000 Hospital Revenue Bonds (Series 2011), 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, and the bond trustee, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 17, 2012

1205-1359625