

**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, 2006 and 2005**

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

Release Date 11-15-06

**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, 2006 and 2005**

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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 Hospital), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. 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. We were not engaged to perform an audit of the Hospital'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 Hospital'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 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, 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, 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 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 15 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 6, 2006

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

## Management's Discussion and Analysis

June 30, 2006

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

### **Required Financial Statements**

The basic financial statements of the Hospital report information about the Hospital using Government 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 changes 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.

### **Financial Highlights for the Year Ended June 30, 2006**

- The Hospital's total assets increased by approximately \$18,074,000, or approximately 8%, primarily due to cash generated by operating and investing activities used to increase capital assets.

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

Management's Discussion and Analysis (continued)

- During the year, the Hospital's total operating revenue increased approximately \$19,614,000, or 12%, to \$183,336,000 from the prior year while expenses increased \$16,190,000, or 10%, to \$174,194,000. The Hospital had income from operations of \$9,143,000, which is approximately 5% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$5,719,000, or 3% of operating revenue.
- The Hospital received approximately \$1,877,000 and \$2,700,000 in 2006 and 2005, 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 \$12,559,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2006 Cost</b>
Heart Health Center Renovation	\$3,339,000
Rehab Campus Renovation	2,424,000
North Access Road	1,017,000
Medical Center Expansion	1,003,000
Orthopedic Clinic Renovation	232,000
Patient Room Renovations	260,900

The source of the funding for these projects was derived from operations and receipts from 2003 bond issuances.

**Financial Highlights for the Year Ended June 30, 2005**

- The Hospital's total assets increased by approximately \$8,542,000, or approximately 4%, primarily due to cash generated by operating and investing activities used to increase capital assets.
- During the year, the Hospital's total operating revenue increased approximately \$14,201,000, or 9%, to \$163,723,000 from the prior year while expenses increased \$13,129,000, or 9%, to \$158,006,000. The Hospital had income from operations of \$5,717,000, which is approximately 3.5% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$4,645,000, or 3.1% of operating revenue.

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

Management's Discussion and Analysis (continued)

- The Hospital received approximately \$2,700,000 and \$2,000,000 in 2005 and 2004, 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 \$12,331,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2005 Cost</b>
Outpatient Diagnostic Center	\$6,582,600
Medical Center Expansion	715,500
Rehab Campus Renovation	524,700
Cardiac Monitors and Computers	514,200
Hospital Roofing	508,200
Nurse Call System	300,200
Walker Clinic Office Suites	358,900
Patient Room Renovations	290,900

The source of the funding for these projects was derived from operations and receipts from 2003 bond issuances.

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

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**

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total current assets	\$ 51,543,077	\$ 44,844,072	\$ 45,525,680
Capital assets – net	91,990,172	88,957,902	87,071,022
Other assets, including board-designated investments	112,842,361	104,499,476	97,162,907
<b>Total assets</b>	<b>\$ 256,375,610</b>	<b>\$ 238,301,450</b>	<b>\$ 229,759,609</b>
Current liabilities	\$ 27,557,396	\$ 21,137,775	\$ 19,576,484
Long-term debt outstanding and other long-term liabilities	94,444,972	95,907,114	97,576,852
<b>Total liabilities</b>	<b>122,002,368</b>	<b>117,044,889</b>	<b>117,153,336</b>
Net assets:			
Invested in capital assets, net of related debt	20,751,211	16,714,883	16,050,260
Restricted net assets	8,459,015	8,575,318	8,134,464
Unrestricted net assets	105,163,016	95,966,360	88,421,549
<b>Total liabilities and net assets</b>	<b>\$ 256,375,610</b>	<b>\$ 238,301,450</b>	<b>\$ 229,759,609</b>

As can be seen in Table 1, total assets increased by approximately \$18,074,000 and \$8,542,000 to approximately \$256,376,000 during 2006 and 2005, respectively. The change in total assets is primarily due to increases in property, plant, and equipment exceeding depreciation expense for the year, and increases in investments, which were funded by the excess of revenues over expenses during fiscal year 2006 and 2005.



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

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 revenues and expenses for each of the fiscal years ended June 30, 2006, 2005, and 2004:

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

	Years Ended June 30		
	2006	2005	2004
Revenue:			
Net patient service revenue	\$ 179,947,561	\$ 160,806,228	\$ 147,044,877
Other	3,388,898	2,916,594	2,476,735
Total operating revenue	<u>183,336,459</u>	<u>163,722,822</u>	<u>149,521,612</u>
Expenses:			
Salaries and employee benefits	107,822,713	98,817,255	90,729,290
Supplies, contract services, equipment, and fees	40,718,452	35,169,684	31,708,469
Other operating expenses	9,889,588	9,113,793	8,712,624
Depreciation	11,023,424	10,344,497	9,147,406
Interest	4,739,462	4,558,484	4,579,343
Total operating expenses	<u>174,193,639</u>	<u>158,003,713</u>	<u>144,877,132</u>
Operating income	9,142,820	5,719,109	4,644,480
Investment income	3,973,861	2,921,906	1,121,544
Other	—	9,273	—
Excess of revenue and investment income over expenses	<u>13,116,681</u>	<u>8,650,288</u>	<u>5,766,024</u>
Net assets – beginning of year	121,256,561	112,606,273	106,840,249
Net assets – end of year	<u>\$ 134,373,242</u>	<u>\$ 121,256,561</u>	<u>\$ 112,606,273</u>

*Sources of Revenue*

*Operating Revenue*

During fiscal years 2006, 2005, and 2004, the Hospital derived the majority, 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

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

Management's Discussion and Analysis (continued)

for the Medicare and Medicaid programs and the third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the 2006, 2005, and 2004 fiscal years.

**TABLE 3**  
**Payor Mix by Percentage**

	Years Ended June 30		
	2006	2005	2004
Managed care	20%	19%	18%
Medicare	44	48	49
Medicare HMO	3	1	1
Medicaid	21	20	20
Commercial insurance	5	6	7
Self-pay and other	7	6	5
Total patient revenues	100%	100%	100%

*Other Revenue*

The following table summarizes other revenue:

**TABLE 4**  
**Other Revenue**

	Years Ended June 30		
	2006	2005	2004
Cafeteria	\$ 1,202,054	\$ 1,085,738	\$ 1,010,057
Day care	641,103	551,670	520,496
Gift shop	328,060	257,817	274,382
Rental income	527,157	433,855	378,119
X-ray school income	110,359	152,057	136,832
Premier purchasing rebates	309,273	233,381	27,535
Miscellaneous	270,892	202,076	129,314
Total other revenue	\$ 3,388,898	\$ 2,916,594	\$ 2,476,735

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

Management's Discussion and Analysis (continued)

*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 had a total return of \$3,973,861, \$2,921,906, and \$1,121,544 during fiscal years 2006, 2005, and 2004, respectively.

**Operating and Financial Performance**

Overall activity at the Hospital, as measured by patient discharges, improved 5.0% to 16,059 discharges in 2006 from 15,288 discharges in 2005. Patient days increased 7.3% over the prior year from 79,914 in 2005 to 85,744 in 2006. The average length of stay for all patients (excluding newborns) increased to 5.3 days in 2006 from 5.2 days in 2005.

Overall activity at the Hospital, as measured by patient discharges, improved 3.4% to 15,288 discharges in 2005 from 14,786 discharges in 2004. Patient days decreased 2.8% over the prior year from 82,200 in 2004 to 79,914 in 2005. The average length of stay for all patients (excluding newborns) decreased to 5.2 days in 2005 from 5.6 days in 2004.

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

Management's Discussion and Analysis (continued)

**TABLE 5**  
**Patient and Hospital Statistical Data**

	Years Ended June 30		
	2006	2005	2004
<b>Admissions:</b>			
Adult and pediatric	13,544	12,875	12,419
Newborn and NICU	1,702	1,478	1,441
Psychiatric care	534	404	403
CMR services	445	587	622
<b>Patient days:</b>			
Adult and pediatric	68,165	63,313	63,313
Medicare (included in adult and pediatric)	35,977	35,426	36,740
Medicaid (included in adult and pediatric)	14,217	13,083	12,725
Newborn and NICU	7,678	5,885	6,468
Psychiatric care	5,239	5,062	5,583
CMR services	4,662	5,654	6,836
Operating room patients	9,908	9,367	9,151
Outpatient registrations	90,679	79,321	71,386
Emergency room visits	72,188	68,462	69,422
<b>Average daily census:</b>			
Adult and pediatric	187	174	173
Psychiatric care	14	14	15
CMR services	13	16	19
<b>Average length of stay (excluding newborn):</b>			
All patients	5.3	5.2	5.6
Medicare patients	6.4	6.2	6.6
Medicaid patients	4.1	4.0	4.0
Psychiatric care	9.9	12.4	13.9
CMR services	10.5	9.7	10.7
<b>Percentage of total patient days:</b>			
Medicare	52.8%	56.0%	58.0%
Medicaid	20.9%	20.7%	20.1%
Home health visits	912	7,447	8,613
Family medicine clinic visits	35,792	29,691	25,466
Full-time equivalents (FTEs)	1,825	1,799	1,743

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

Management's Discussion and Analysis (continued)

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2006 and 2005:

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. Net patient services revenue represents gross patient revenue net of allowances.

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

**TABLE 6**  
**Allowance Summary**

	Years Ended June 30		
	2006	2005	2004
Allowances:			
Provision for bad debts	\$ 30,418,200	\$ 20,309,252	\$ 15,206,451
Charity care	4,284,919	7,165,974	6,292,764
Other adjustments	1,800,486	2,170,208	1,671,108
Blue Cross, Louisiana State Employees Group benefits, and other contractual allowances	71,106,062	50,914,319	36,335,296
Medicaid contractual allowances	104,673,346	82,505,251	61,389,482
Medicare contractual allowances	186,804,452	170,006,762	134,735,524
	<u>\$399,087,465</u>	<u>\$333,071,766</u>	<u>\$255,630,625</u>

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 \$4,285,000 were forgone during 2006, compared to \$7,166,000 in 2005, or a 40% decrease from the prior fiscal year. The reduction in charity care in fiscal year 2006 was mainly due to the DHH 1115 waiver payment which provided relief for hospital uncompensated care cost after Hurricane Katrina.

Salaries expense increased \$7,089,500, or 9%, to \$87,368,100 in 2006 from \$80,278,600 in 2005. As a percentage of net patient service revenue, salary expense was approximately 49% and 50% for the fiscal years ended June 30, 2006 and 2005, respectively. This decrease was primarily due to an increase in net patient service revenue.

Employee benefit expense increased \$1,916,000, or 10%, from prior year. Employee benefit expense remained consistent at 23% of salaries expense each year.

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

Management's Discussion and Analysis (continued)

Supplies expense increased \$4,342,000, or 17%, from prior year. As a percentage of net patient service revenue, supplies expense was approximately 17% and 16% for the fiscal years ended June 30, 2006 and 2005, respectively. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Contract services, equipment, and fees increased \$1,206,500, or 12%, from prior year. This increase was primarily a result of the costs associated with additional maintenance and service contracts.

Other operating expenses increased approximately \$776,000 from prior year, which represents 9% of operating revenue, consistent with the prior-year percentage.

Depreciation expense increased approximately \$679,000, or 7%, from prior year. This increase is due to major building additions being placed in service.

Interest expense increased approximately \$181,000, or 4%, from prior year. This increase is primarily due to increased interest rates on 2003B variable bonds.

Total operating expenses increased by \$16,190,000 for the year ended June 30, 2006, 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. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income increased from the prior year due primarily to changes in interest rates earned on investments.

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2005 and 2004:

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 \$7,166,000 were forgone during 2005, compared to \$6,292,800 in 2004, or a 14% increase from the prior fiscal year.

Salaries expense increased \$4,859,400, or 6%, to \$80,278,600 in 2005 from \$75,419,200 in 2004. As a percentage of net patient service revenue, salary expense was approximately 50% and 51% for the fiscal years ended June 30, 2005 and 2004, respectively. This decrease was primarily due to an increase in net patient service revenue.

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

Management's Discussion and Analysis (continued)

Employee benefit expense increased \$3,228,500, or 21%, from prior year. Employee benefit expense represented 23% and 20% of salaries expense in the current and prior fiscal years, respectively. This increase was primarily due to improved employee retirement, life insurance, health insurance, and disability benefits.

Supplies expense increased \$1,943,000, or 8%, from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 16% each year. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Contract services, equipment, and fees increased \$1,518,000, or 18%, from prior year. This increase was primarily a result of the costs associated with additional maintenance and professional service contracts.

Other operating expenses increased approximately \$403,000 from prior year, which represents 6% of operating revenue, consistent with the prior-year percentage.

Depreciation expense increased approximately \$1,197,000, or 13%, from prior year. This increase is due to major building additions being placed in service.

Interest expense remained relatively flat compared to the prior year.

Total operating expenses increased by \$13,129,000 for the year ended June 30, 2005, 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. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income increased from the prior year due primarily to changes in interest rates earned on investments.

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

Management's Discussion and Analysis (continued)

**Capital Assets**

During fiscal years 2006 and 2005, the Hospital invested \$12,559,000 and \$12,331,000, respectively, in a broad range of property, plant, and equipment included in Table 7 below.

**TABLE 7**  
**Property, Plant, and Equipment**

	2006	June 30 2005	2004
Land	\$ 4,076,858	\$ 4,214,358	\$ 4,119,404
Building and equipment	194,547,958	187,883,509	168,050,183
Subtotal	198,624,816	192,097,867	172,169,587
Less accumulated depreciation	115,522,224	105,060,169	95,597,010
Construction in progress	8,887,580	1,920,204	10,498,445
Net property, plant, and equipment	<u>\$ 91,990,172</u>	<u>\$ 88,957,902</u>	<u>\$ 87,071,022</u>

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

In Table 8, the Hospital's fiscal year 2007 capital budget projects spending up to \$28,390,000 for capital projects. These projects will be financed from operations and bond proceeds from previous fundings. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

**TABLE 8**  
**Fiscal Year 2007 Capital Budget**

Equipment purchases	\$ 4,929,800
Hospital renovations	1,345,000
NOMC expansion	2,184,100
NORH renovations	4,983,000
Access road	2,421,000
Women's Service Building	4,467,900
Hospital Information Systems Project	1,368,000
Resource Center Building	6,691,200
Total	<u>\$ 28,390,000</u>



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

Management's Discussion and Analysis (continued)

**Long-Term Debt (Excluding Capital Leases)**

In July 2003, \$70,000,000 of Hospital Revenue bonds were sold, and in August 2003, an additional \$20,000,000 of bonds were sold. The net proceeds of these sales are being used to fund additions, renovations, and improvements to the Hospital's facilities. Additionally, approximately \$47,500,000 of the Series 1994 bonds was repaid by the 2003 issues. Further, in June 2004, \$5,000,000 of Hospital Refunding Bonds were sold. The net proceeds of these sales were used to repay additional amounts of Series 1994 Bonds.

At June 30, 2006, the Hospital had \$93,011,000 in short-term and long-term debt. Total debt has decreased by \$1,642,000 in fiscal year 2006, which was due to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 36% of the Hospital's total assets at June 30, 2006, as compared to 40% at June 30, 2005.

At June 30, 2005, the Hospital had \$94,652,000 in short-term and long-term debt. Total debt has decreased by \$1,703,000 in fiscal year 2005, which was due to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 40% of the Hospital's total assets at June 30, 2005, as compared to 42% at June 30, 2004.

**Contacting the Hospital's Financial Officer**

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.

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

Balance Sheets

	June 30	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,423,671	\$ 3,671,791
Short-term investments	2,000,000	1,000,000
Patient accounts receivable, net of allowance for uncollectibles of \$10,942,000 in 2006 and \$5,326,000 in 2005	35,156,263	31,430,773
Current portion of designated cash and investments	2,382,481	2,353,621
Inventories	2,771,580	2,637,435
Prepaid expenses and other current assets	3,809,082	3,750,452
Total current assets	<u>51,543,077</u>	<u>44,844,072</u>
Designated cash and investments:		
Under bond indenture agreement held by trustee	30,211,652	30,967,099
By board for plant and equipment additions and replacements	75,515,006	66,184,836
By board for self-insurance claims	1,540,378	1,599,173
	<u>107,267,036</u>	<u>98,751,108</u>
Less current portion	2,382,481	2,353,621
Noncurrent designated cash and investments	<u>104,884,555</u>	<u>96,397,487</u>
Property, plant, and equipment:		
Land	4,076,858	4,214,358
Buildings and equipment	194,547,958	187,883,509
Construction in progress	8,887,580	1,920,204
	<u>207,512,396</u>	<u>194,018,071</u>
Less accumulated depreciation	115,522,224	105,060,169
Property, plant, and equipment, net	<u>91,990,172</u>	<u>88,957,902</u>
Unamortized financing costs, net	4,385,438	4,761,207
Note receivable	380,748	402,410
Deferred compensation plan investments	3,191,620	2,938,372
Total assets	<u>\$256,375,610</u>	<u>\$238,301,450</u>

	June 30	
	2006	2005
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 9,674,444	\$ 7,479,130
Accrued salaries and payroll-related costs	5,732,376	4,783,506
Accrued interest payable	1,612,668	1,598,068
Accrued self-insurance claims	3,418,918	3,871,408
Estimated third-party payor settlements -- Medicare and Medicaid	5,361,635	1,722,126
Current portion of capital lease obligations	16,963	-
Current portion of long-term debt	1,740,392	1,683,537
Total current liabilities	<u>27,557,396</u>	<u>21,137,775</u>
Capital lease obligations, excluding current portion	84,543	-
Long-term debt, net of unamortized bond premium of \$178,000 in 2006 and \$190,000 in 2005, excluding current portion	91,168,809	92,968,742
Deferred compensation plan obligations	3,191,620	2,938,372
Total liabilities	<u>122,002,368</u>	<u>117,044,889</u>
Net assets:		
Invested in capital assets, net of related debt	20,751,211	16,714,883
Restricted net assets	8,459,015	8,575,318
Unrestricted net assets	105,163,016	95,966,360
Total net assets	<u>134,373,242</u>	<u>121,256,561</u>
Total liabilities and net assets	<u><u>\$256,375,610</u></u>	<u><u>\$238,301,450</u></u>

*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

	Years Ended June 30	
	2006	2005
Revenue:		
Net patient service revenue	\$ 179,947,561	\$ 160,806,228
Other	3,388,898	2,916,594
Total operating revenue	<u>183,336,459</u>	<u>163,722,822</u>
Expenses:		
Salaries	87,368,079	80,278,609
Employee benefits	20,454,634	18,538,646
Supplies	29,703,648	25,361,424
Contract services, equipment, and fees	11,014,804	9,808,260
Other operating expenses	9,889,588	9,113,793
Depreciation	11,023,424	10,344,497
Interest	4,739,462	4,558,484
Total operating expenses	<u>174,193,639</u>	<u>158,003,713</u>
Operating revenue in excess of operating expenses	9,142,820	5,719,109
Investment income (loss):		
Investment income	4,333,751	2,752,472
Unrealized gain (loss) on investments	(356,132)	169,434
Realized loss on investments	(3,758)	-
Total investment income	<u>3,973,861</u>	<u>2,921,906</u>
Other	-	9,273
Excess of revenue and income over expenses	<u>13,116,681</u>	<u>8,650,288</u>
Net assets at beginning of year	<u>121,256,561</u>	<u>112,606,273</u>
Net assets at end of year	<u>\$ 134,373,242</u>	<u>\$ 121,256,561</u>

*See accompanying notes.*

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

Statements of Cash Flows

	Years Ended June 30	
	2006	2005
<b>Operating activities</b>		
Cash collected from patients and third-party payors	\$ 183,597,922	\$ 169,178,437
Cash payments to employees and for employee-related costs	(107,326,333)	(98,053,882)
Cash payments for supplies, services, and other operating expenses	(48,583,839)	(46,428,937)
Net cash provided by operating activities	<u>27,687,750</u>	<u>24,695,618</u>
<b>Capital and related financing activities</b>		
Purchases of property, plant, and equipment	(14,208,689)	(12,330,687)
Proceeds from disposals of assets	165,441	79,074
Principal payments on long-term debt incurred for capital purposes	(1,665,392)	(1,646,746)
Principal payments on capital lease obligations	(31,815)	(117,699)
Interest payments on long-term debt and capital lease obligations	(4,361,095)	(4,100,333)
Debt financing costs	-	56,115
Proceeds from issuance of long-term debt	67,637	72,595
Net cash used in capital and related financing activities	<u>(20,033,913)</u>	<u>(17,987,681)</u>
<b>Investing activities</b>		
Investment income	3,973,861	2,921,906
Change in short-term investments	(1,000,000)	(1,000,000)
Purchases of designated cash and investments	(60,016,985)	(29,958,083)
Proceeds from sales and maturities of designated cash and investments	51,141,167	22,198,825
Net cash used in investing activities	<u>(5,901,957)</u>	<u>(5,837,352)</u>
Net change in cash	1,751,880	870,585
Cash and cash equivalents at beginning of year	3,671,791	2,801,206
Cash and cash equivalents at end of year	<u>\$ 5,423,671</u>	<u>\$ 3,671,791</u>

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

Statements of Cash Flows (continued)

	Years Ended June 30	
	2006	2005
<b>Reconciliation of income from operations to net cash provided by operating activities</b>		
Operating revenue in excess of operating expenses	\$ 9,142,820	\$ 5,719,109
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation	11,023,424	10,344,497
Unrealized loss (gain) on investments	356,132	(169,434)
Realized gain on sale of investments	3,758	-
Bad debt expense	30,418,200	20,309,252
Net loss on disposals of assets	(12,446)	20,236
Amortization of financing costs	375,769	377,573
Amortization of premium on long-term debt	(12,002)	(12,061)
Interest expense on long-term debt and capital lease obligations	4,375,695	4,192,972
Other	-	9,273
Changes in operating assets and liabilities:		
Patient accounts receivable	(34,143,690)	(18,237,168)
Inventories, prepaid expenses, and other assets	(171,113)	(1,201,256)
Estimated third-party payor settlements	3,639,509	3,523,456
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	2,691,694	(180,831)
Net cash provided by operating activities	<u>\$ 27,687,750</u>	<u>\$ 24,695,618</u>

See accompanying notes.

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

## Notes to Basic Financial Statements

June 30, 2006

### 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 269-bed acute-care hospital, and North Oaks Rehabilitation Hospital, a 27-bed hospital that provides rehabilitation 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 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.

#### 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 board of commissioners' designation or under trust agreements.

#### 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.

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

Notes to Basic Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Inventories**

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

**Property, Plant, and Equipment**

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

**Unamortized Financing 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. Additionally, the difference between the reacquisition price of the Series 1994 Bonds and the net carrying amount were deferred. Approximately \$4,500,000 has been included in the 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 Hospital's best estimate of incurred but unpaid expenses for professional liability, workers' compensation, and employee health claims.



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

Notes to Basic Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Net Assets**

The Hospital'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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in this component of net assets. Rather, that portion of debt should be included in the same net asset component as the unspent proceeds. At June 30, 2006 and 2005, approximately \$21,772,000 and \$22,409,000, respectively, of unspent bond proceeds was included in unrestricted net assets.
- Restricted—This component reports those net assets with externally imposed constraints on their use 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 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.

**Net Patient Service Revenue and Related Receivables**

The Hospital has entered into agreements with third-party payors, 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.

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

Notes to Basic Financial Statements (continued)

**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 an increase to net patient service revenue of \$375,000 in 2006 and a decrease of \$2,200,000 in 2005.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Records of charges foregone 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 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. Medicaid inpatient services are paid on a prospective per diem basis.

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

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 83% of total cost.

Medicare bad debts, Medicare DSH payments, and Medicaid non-fee schedule 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. 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 and have been recorded in the accounts of the Hospital.

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

Notes to Basic Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

During the years ended June 30, 2006 and 2005, approximately 68% and 69%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

**Income Taxes**

The Hospital 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 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.

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

Notes to Basic Financial Statements (continued)

**2. Cash, Investments, and Designated Cash and Investments**

At June 30, designated cash and investments balances were as follows:

	<u>Maturity</u>	<u>Fair Value</u>
<b>2006</b>		
Securities type:		
U.S. backed government obligations	2006-2010	\$ 20,353,150
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	-	<u>94,337,558</u>
		<u>\$ 114,690,708</u>
<b>2005</b>		
Securities type:		
U.S. backed government obligations	2006-2010	\$ 9,563,247
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	-	<u>93,859,652</u>
		<u>\$ 103,422,899</u>

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. The composition of asset allocation and specific allocation of funds is outlined below, and the result is that maturity terms are staggered.

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

Notes to Basic Financial Statements (continued)

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

<b>Type of Investment:</b>	<b>Desired % of Range of Overall Portfolio</b>	<b>Maximum % of Overall Portfolio</b>
Certificates of Deposit	0% to 100%	100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%	100%
Treasury Funds	0% to 100%	100%
Bonds of Notes – issued or guaranteed by federal agencies, or government instrumentalities (which are federally sponsored)	0% to 25%	25%
Mutual Funds (100% Government-Backed)	0% to 25%	25%
<b>Term of Investments:</b>		
0 to 6 months	0% to 100%	100%
6 months to 1 year	0% to 100%	100%
1 year to 5.5 years	0% to 70%	70%
5.5 years to 10 years	0% to 30%	30%
Greater than 10 years, but less than 20 years	0% to 30%	30%

During the years ended June 30, 2006 and 2005, the Hospital invested primarily in securities issued by the U.S. Treasury and other federal agencies.

**Credit Risk – Investments**

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The Hospital had investments in obligations of the U.S. government or explicitly guaranteed by the U.S. government with a fair value of \$20,353,150 at June 30, 2006.

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

Notes to Basic Financial Statements (continued)

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

**Concentration of Credit Risk**

Per GASB 40, 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 five percent (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, 2006, the Hospital 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 Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of June 30, 2006, \$66,275,000 of the Hospital's bank balances of \$66,775,000 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured.

**Custodial Credit Risk – Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Hospital 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, 2006, the Hospital was not exposed to custodial credit risk for its investments as all were registered in the name of the Hospital.

**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.

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

Notes to Basic Financial Statements (continued)

**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 Hospital's segmented time distribution investment maturities in years by investment type as of June 30, 2006.

Investment Type	Fair Value	Years		
		< 1	1 - 5	> 5
Federal National Mortgage Association	\$ 2,395,440	\$ -	\$ 2,395,440	\$ -
Federal Home Loan Bank	11,995,870	8,975,970	3,019,900	-
Federal Home Loan Mortgage Corporation	5,961,840	-	5,961,840	-
<b>Total</b>	<b>\$ 20,353,150</b>	<b>\$ 8,975,970</b>	<b>\$ 11,377,180</b>	<b>\$ -</b>

**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 payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006 and 2005, was as follows:

	2006	2005
Medicare 65	3%	1%
Medicare	18	25
Medicaid	9	10
Managed care payors	26	21
Other third-party payors	14	18
Patients	30	25
	<b>100%</b>	<b>100%</b>

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

Notes to Basic Financial Statements (continued)

**4. Designated Cash and Investments**

The terms of the Hospital's 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 resolutions. As of June 30, 2006 and 2005, the funds were deposited as follows:

	<u>2006</u>	<u>2005</u>
Bond principal account	\$ 718,632	\$ 690,597
Bond interest account	1,732,766	1,681,967
Bond construction account	21,771,746	22,409,261
Reserve accounts and other	5,988,508	6,185,275
	<u>\$ 30,211,652</u>	<u>\$ 30,967,100</u>

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 13), 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, 2006 and 2005.

**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 note receivable balance was \$380,700 at June 30, 2006 and \$402,400 at June 30, 2005.

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 three successive ten-year renewal options.



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

Notes to Basic Financial Statements (continued)

**6. Property, Plant, and Equipment**

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2006:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
	<i>(In Thousands)</i>				
Land and land improvements	\$ 4,214	\$ -	\$ 138	\$ -	\$ 4,076
Buildings and fixed equipment	117,736	85	-	1,809	119,630
Equipment	70,147	5,347	577	1	74,918
Construction in progress	1,920	8,778	-	(1,810)	8,888
	<u>194,017</u>	<u>14,210</u>	<u>715</u>	<u>-</u>	<u>207,512</u>
Less accumulated depreciation	105,060	11,004	542	-	115,522
Property, plant, and equipment, net	<u>\$ 88,957</u>	<u>\$ 3,206</u>	<u>\$ 173</u>	<u>\$ -</u>	<u>\$ 91,990</u>

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2005:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
	<i>(In Thousands)</i>				
Land and land improvements	\$ 4,119	\$ 101	\$ 6	\$ -	\$ 4,214
Buildings and fixed equipment	106,041	317	535	11,913	117,736
Equipment	62,009	7,410	440	1,168	70,147
Construction in progress	10,499	4,502	-	(13,081)	1,920
	<u>182,668</u>	<u>12,330</u>	<u>981</u>	<u>-</u>	<u>194,017</u>
Less accumulated depreciation	95,597	10,344	881	-	105,060
Property, plant, and equipment, net	<u>\$ 87,071</u>	<u>\$ 1,986</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 88,957</u>

**7. Employee Retirement Plan**

The Hospital 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 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

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

Notes to Basic Financial Statements (continued)

**7. Employee Retirement Plan (continued)**

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 \$2,055,000 in 2006 and \$1,675,000 in 2005, 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 \$3,191,620 and \$2,938,372 for the fair market value of the plans' combined assets as of June 30, 2006 and 2005, 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.

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 \$1,469,000 and \$1,627,000 as of June 30, 2006 and 2005, respectively, for the estimated losses and 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.

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

Notes to Basic Financial Statements (continued)

**8. Risk Management (continued)**

The Hospital has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The Hospital had accrued \$1,950,000 and \$2,244,000 at June 30, 2006 and 2005, 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
2006	\$3,871,000	\$ 10,790,000	\$ 11,242,000	\$ 3,419,000
2005	\$3,877,000	\$ 10,579,000	\$ 10,585,000	\$ 3,871,000

**9. Long-Term Debt**

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

	June 30	
	2006	2005
Hospital Revenue Bonds, Series 1994	\$ -	\$ 350,000
Hospital Revenue Bonds, Series 2003A	68,350,000	69,030,000
Hospital Revenue Bonds, Series 2003B	20,000,000	20,000,000
Hospital Revenue Bonds, Series 2004	4,310,000	4,920,000
Other	172,519	162,089
Total	92,832,519	94,462,089
Plus: unamortized bond premium on 2004 and 2003 bonds	178,188	190,190
	93,010,707	94,652,279
Less: current portion	1,757,355	1,683,537
Long-term debt, less current maturities	\$91,253,352	\$92,968,742

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

Notes to Basic Financial Statements (continued)

**9. Long-Term Debt (continued)**

On July 5, 1994, the District issued \$61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The 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 2004. Payments of the scheduled principal and interest on the 1994 Revenue Bonds are insured by AMBAC Indemnity Corporation.

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 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, 2006.

On August 28, 2003, the District issued \$20,000,000 of Hospital Revenue Bonds, Series 2003B. These serial bonds 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%. 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, 2006.

On June 30, 2004, the District issued \$5,000,000 of Hospital Revenue 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%.

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

Notes to Basic Financial Statements (continued)

**9. Long-Term Debt (continued)**

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2006, were as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,720,000	\$ 3,743,999
2008	1,765,000	3,690,529
2009	1,840,000	3,618,857
2010	1,915,000	3,544,675
2011	2,035,000	3,479,482
2012 – 2016	11,820,000	15,748,476
2017 – 2021	15,220,000	12,344,364
2022 – 2026	19,440,000	8,137,000
2027 – 2031	25,160,000	2,816,759
2032 – 2033	11,745,000	133,174
	<u>\$ 92,660,000</u>	<u>\$ 57,257,315</u>

**10. Operating Lease Obligations**

The Hospital has entered into various cancelable operating leases for equipment. Operating lease expense was approximately \$673,000 and \$591,000 for the years ended June 30, 2006 and 2005, respectively.

**11. 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, \$4,285,000 in 2006 and \$7,166,000 in 2005, for services and supplies furnished under its charity care policy.

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

Notes to Basic Financial Statements (continued)

**12. 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.

**13. Commitments**

The Hospital has various commitments totaling approximately \$9,962,000 at June 30, 2006, and \$5,520,000 at June 30, 2005. These commitments include expansion of North Oaks Medical Center, renovation of North Oaks Rehabilitation Hospital, and various capital equipment purchases.

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters 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 Health System) (the Hospital), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. 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**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by errors or fraud 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.

**Compliance and Other Matters**

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*.

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*

October 6, 2006