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# Thibodaux Regional Medical Center

September 30, 1999

## Audited Financial Statements

Report on Compliance and on Internal Control Over Financial Reporting

Report on Compliance with Bond Resolution

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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... MAR 0 1 2000

Financial Statements

Thibodaux Regional Medical Center

*Years ended September 30, 1999 and 1998  
with Report of Independent Auditors*

Thibodaux Regional Medical Center

Financial Statements

Years ended September 30, 1999 and 1998

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## Report of Independent Auditors

The Board of Commissioners  
Hospital Service District No. 3 of the  
Parish of Lafourche, State of Louisiana

We have audited the accompanying balance sheets of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital), as of September 30, 1999 and 1998, and the related statements of revenues, expenses and fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thibodaux Regional Medical Center at September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Hospital is or will become year 2000 compliant, that the Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 1999 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Ernst & Young LLP*

October 30, 1999

# Thibodaux Regional Medical Center

## Balance Sheets

	September 30	
	1999	1998
<b>Assets</b>		
Current assets:		
Cash and cash equivalents <i>(Note 8)</i>	\$ 4,456,731	\$ 4,074,768
Investments <i>(Note 8)</i>	5,127,208	5,124,239
Patient accounts receivable, less allowances for uncollectible accounts of \$8,197,000 in 1999 and \$7,592,000 in 1998	11,824,421	10,618,888
Assets whose use is limited and required for current liabilities <i>(Notes 5 and 8)</i>	1,663,247	1,642,747
Interest and other receivables	224,303	220,192
Inventories	1,028,067	907,428
Prepaid expenses	582,336	359,093
Total current assets	24,906,313	22,947,355
Assets whose use is limited, less amounts required for current liabilities <i>(Notes 5 and 8)</i>	47,252,018	46,858,335
Unamortized debt issuance costs	289,429	308,656
Other assets	139,948	276,197
Property, plant and equipment <i>(Note 4)</i> :		
Land and land improvements	2,359,157	2,346,203
Buildings and fixed equipment	35,460,126	34,765,231
Equipment	29,584,881	27,852,564
Accumulated depreciation and amortization	(32,902,245)	(30,462,190)
Construction in progress	4,294,954	801,547
	38,796,873	35,303,355
	\$ 111,384,581	\$ 105,693,898

	September 30	
	1999	1998
<b>Liabilities and fund balance</b>		
Current liabilities:		
Trade accounts payable	\$ 2,696,025	\$ 1,996,439
Employee compensation	2,394,471	2,079,846
Amounts due to contractual third-party payors <i>(Note 2)</i>	455,970	1,724,253
Payables related to assets whose use is limited <i>(Note 3)</i> :		
Construction accounts payable	669,572	669,572
Accrued interest	553,675	563,175
Amounts due within one year on long-term debt	440,000	410,000
Amounts due within one year on capitalized lease obligations <i>(Note 4)</i>	-	242,870
Total current liabilities	<u>7,209,713</u>	<u>7,686,155</u>
Long-term debt, less amounts due within one year <i>(Note 3)</i>	17,928,852	18,342,870
Total liabilities	<u>25,138,565</u>	<u>26,029,025</u>
Fund balance	86,246,016	79,664,873
	<u><u>\$ 111,384,581</u></u>	<u><u>\$ 105,693,898</u></u>

*See accompanying notes.*

## Thibodaux Regional Medical Center

### Statements of Revenues, Expenses and Fund Balance

	<b>Year ended September 30</b>	
	<b>1999</b>	<b>1998</b>
Net patient service revenue <i>(Notes 2 and 9)</i>	<b>\$ 63,006,976</b>	\$ 62,032,976
Other revenue	<b>867,796</b>	633,122
Total revenue	<b>63,874,772</b>	62,666,098
 Expenses:		
Salaries and wages	<b>22,978,360</b>	21,466,474
Employee benefits and payroll taxes	<b>4,188,201</b>	3,251,718
Professional fees	<b>5,777,823</b>	5,393,459
Supplies and materials	<b>9,595,230</b>	9,024,679
Purchased services	<b>3,295,740</b>	2,965,039
Provision for bad debts	<b>2,751,356</b>	3,513,370
Other	<b>4,321,585</b>	3,749,699
Depreciation and amortization	<b>4,304,835</b>	4,540,588
Interest	<b>1,165,384</b>	1,204,016
Total expenses	<b>58,378,514</b>	55,109,042
Income from operations	<b>5,496,258</b>	7,557,056
 Nonoperating income (expense):		
Investment income <i>(Note 8)</i>	<b>1,137,131</b>	2,488,385
Other	<b>(52,246)</b>	(17,352)
Total nonoperating income	<b>1,084,885</b>	2,471,033
Revenue in excess of expenses	<b>6,581,143</b>	10,028,089
 Fund balance at beginning of year		
	<b>79,664,873</b>	69,636,784
Fund balance at end of year	<b>\$ 86,246,016</b>	\$ 79,664,873

*See accompanying notes.*



# Thibodaux Regional Medical Center

## Statements of Cash Flows

	<b>Year ended September 30</b>	
	<b>1999</b>	<b>1998</b>
<b>Operating activities</b>		
Income from operations	\$ 5,496,258	\$ 7,557,056
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,304,835	4,540,588
Interest expense on debt and capital leases	1,165,384	1,204,016
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(1,205,533)	(1,204,023)
Increase in other receivables	(21,564)	(157,810)
Increase in inventories and prepaid expenses	(343,882)	(14,529)
Increase in accounts payable and employee compensation	1,014,211	25,420
Increase (decrease) in amounts due to contractual third-party payors	(1,268,283)	529,370
Net cash provided by operating activities	9,141,426	12,480,088
<b>Noncapital financing activities</b>		
Other nonoperating income received	3,530	12,956
Net cash provided by noncapital financing activities	3,530	12,956
<b>Capital and related financing activities</b>		
Purchases of property, plant and equipment	(7,717,880)	(2,534,565)
Principal payments on debt incurred for capital purposes	(410,000)	(405,000)
Principal payments on capital lease obligations	(242,870)	(312,903)
Interest payments on debt and capital lease obligations	(1,129,675)	(1,167,202)
Net cash used in capital and related financing activities	(9,500,425)	(4,419,670)
<b>Investing activities</b>		
Interest received on investments	3,082,622	2,480,887
Decrease in funds designated under bond resolutions	440,494	211,037
Increase in funds designated by board for plant repair and expansion	(2,369,923)	(10,660,153)
Increase in investments	(415,761)	(736,710)
Net cash provided by (used in) investing activities	737,432	(8,704,939)
Net increase (decrease) in cash and cash equivalents	381,963	(631,565)
Cash and cash equivalents at beginning of year	4,074,768	4,706,333
Cash and cash equivalents at end of year	\$ 4,456,731	\$ 4,074,768

*See accompanying notes.*

# Thibodaux Regional Medical Center

## Notes to Financial Statements

September 30, 1999

### 1. Organization and Significant Accounting Policies

#### Organization

The accompanying financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana d/b/a Thibodaux Regional Medical Center (the Hospital). Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's board of commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

#### Basis of Accounting

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

#### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### Net Patient Service Revenue and Related Receivables

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they may lack adequate insurance or are covered by contractual payment arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risks by regularly reviewing its accounts and contracts and by providing appropriate allowances.

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

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

##### Medicare and Medicaid Reimbursement Programs

The Hospital provides inpatient services to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Since the amount paid is prospectively determined, a retroactive settlement is not made for Medicare inpatient services. Medicaid inpatient services are paid based on a prospective per diem system. Medicaid outpatient services and Medicare rehabilitation and home health services are reimbursed on a cost basis, subject to certain limitations under the current Medicaid and Medicare regulations. Outpatient ambulatory surgery, clinical lab and radiology diagnostic services to Medicare beneficiaries are reimbursed based on a blend of costs, published facility fees, prevailing charges or fee schedules. All other Medicare outpatient services are reimbursed on a cost basis. Retroactive cost settlements based upon annual cost reports are estimated and recorded in the financial statements.

Final determination of amounts to be received under cost reimbursement regulations is subject to review by program representatives. Although final settlements are not made until a subsequent period, the Hospital estimates and records these retroactive settlements in its financial statements in the period in which services are rendered. Differences between original estimates and subsequent revisions (including final settlements) are reported as an adjustment of net patient service revenue in the period in which the revisions are made.

##### 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.

##### Cash Equivalents

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 designation or under trust agreements.

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

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

##### **Investments**

During the year ended September 30, 1998, the Hospital adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*; accordingly, all investments are stated at fair value. Changes in the fair value of investments are included in investment income. The effect of adopting the new statement was immaterial at September 30, 1998.

##### **Inventories**

Inventories are valued at the latest invoice price which approximates the lower of cost (first-in, first-out method) or market.

##### **Intangible Assets**

Intangible assets, consisting primarily of the value of noncompete agreements and the cost in excess of net asset value of certain physician practices acquired by the Hospital, are included in other assets in the balance sheet and are being amortized on a straight-line basis over periods of four to five years.

##### **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 fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets. Amortization of assets capitalized under lease arrangements is provided using the straight-line method over the lease term and is included in depreciation and amortization expense.

##### **Unamortized Bond Issuance Costs and Bond Discount**

Costs incurred in connection with the issuance of the 1993 Revenue Bonds are being amortized over the terms of the bonds using the interest method. The original issue discount on the 1993 Revenue Bonds is being amortized over the terms of the bonds using the interest method.

# Thibodaux Regional Medical Center

## Notes to Financial Statements (continued)

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

#### **Operating and Nonoperating Revenue**

The Hospital's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenues. Operating revenues include those generated from direct patient care, related support services, gains or losses from disposition of operating properties and sundry revenues related to the operation of the Hospital. Investment income, gains and losses not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

#### **2. Third-Party Payor Arrangements**

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended September 30, 1999 and 1998, approximately 46% and 48%, respectively, of the Hospital's patient service charges were related to services provided to Medicare and Medicaid program beneficiaries.

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

Revenues derived from the Medicare program are subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenues derived from the Medicaid program are subject to audit and adjustment and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements for the years ended through September 30, 1997 for the Medicare program and September 30, 1996 for the Medicaid program have been reviewed by program representatives and adjustments have been recorded to correct for the changes required. These adjustments resulted in an increase in net patient service revenue of approximately \$1,094,000 and \$713,000 for the years ended September 30, 1999 and 1998, respectively.

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

#### 2. Third-Party Payor Arrangements (continued)

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

#### 3. Long-Term Debt

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

	1999	1998
Public Improvement Bonds, Series 1977, 5.6%, due serially to 2002, with remaining annual installments ranging from \$90,000 to \$100,000 (\$90,000 due in 2000)	\$ 285,000	\$ 370,000
Hospital Revenue Bonds, Series 1993, 4.8% to 6.0%, less unamortized discount of \$391,148 at September 30, 1999 (terms described below) (\$350,000 due in 2000)	<u>18,083,852</u>	<u>18,382,870</u>
	<u>18,368,852</u>	<u>18,752,870</u>
Less amounts due within one year	<u>440,000</u>	<u>410,000</u>
	<u>\$ 17,928,852</u>	<u>\$ 18,342,870</u>

The aggregate amounts of maturities for all long-term debt in each of the next five years ending September 30 and thereafter are as follows: 2000—\$440,000; 2001—\$470,000; 2002—\$500,000; 2003—\$400,000; 2004—\$425,000; and \$16,525,000 thereafter.

During 1977, the Hospital Service District (the District) issued public improvement bonds totaling \$1,300,000 to finance construction and expansion of the Hospital. The 1977 Series bonds are callable by the District in inverse order of maturities on any interest payment date.

On December 22, 1993, the Hospital issued \$20,000,000 of Hospital Revenue Bonds, Series 1993. The proceeds of the bonds were used to construct and equip a cancer center and outpatient services medical mall adjacent to the existing Hospital facility, and to renovate and expand certain areas within the Hospital facility. The project was completed in December 1996.

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

#### 3. Long-Term Debt (continued)

The 1993 Revenue Bonds consist of \$350,000 of serial bonds (original issue \$1,875,000) with an interest rate of 4.8%, payable in an annual installment of \$350,000 in 2000; \$2,050,000 of 5.5% term bonds due October 1, 2004; \$4,725,000 of 6.0% term bonds due October 1, 2012; and \$11,350,000 of 6.0% term bonds due October 1, 2023. The term bonds are subject to mandatory sinking fund redemption without a premium prior to maturity, beginning October 1, 2000, 2005, and 2013, respectively. The bonds maturing on or after October 1, 2004 are subject to redemption prior to maturity at the option of the Hospital beginning October 1, 2003; the redemption of the bonds prior to maturity is subject to a premium of up to 2% until October 1, 2005.

The Hospital is required to comply with covenants contained in the 1993 Bond Resolution, including, among other requirements, maintaining certain funds on deposit with the Trustee, annual certification to the Trustee of adequate insurance coverage, limitations on the issuance of additional indebtedness by the Hospital, and maintaining a debt service coverage ratio of 1.20. The Hospital was in compliance with these covenants for the years ended September 30, 1999 and 1998. The 1993 Revenue Bonds are secured by a pledge of the Hospital's revenue.

#### 4. Capitalized Lease Obligations

The cost and accumulated amortization of all equipment held under capitalized lease obligations are included in equipment and accumulated depreciation and amortization in the balance sheet as follows:

	<u>1999</u>	<u>1998</u>
Equipment	\$ 851,619	\$ 1,074,174
Accumulated amortization	<u>608,299</u>	<u>664,684</u>
Net book value	<u>\$ 243,320</u>	<u>\$ 409,490</u>

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

**4. Capitalized Lease Obligations (continued)**

The amounts of future minimum lease payments are as follows:

Year ending September 30:	
2000	\$ 60,300
Total minimum lease payments	60,300
Less amount representing maintenance costs, included in total minimum lease payments	<u>60,300</u>
Net minimum lease payments	-
Less amount representing interest	-
Present value of net minimum lease payments	<u>\$ -</u>

**5. Assets Whose Use Is Limited**

The following is a summary of the components of assets whose use is limited:

	<u>1999</u>	<u>1998</u>
Funds designated by board for plant repair and expansion	\$ 44,263,554	\$ 43,408,877
Funds designated under bond resolutions for debt retirement:		
Public Improvement Bonds, Series 1977	4,704	4,369
Hospital Revenue Bonds, Series 1993:		
Debt Reserve Fund	1,467,581	1,576,951
Debt Service Fund	2,492,361	2,383,803
Funds designated under bond resolution for construction	<u>687,065</u>	<u>1,127,082</u>
	<u>\$ 48,915,265</u>	<u>\$ 48,501,082</u>



## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

#### **6. Retirement Plan**

Effective September 1, 1993, the Hospital implemented a deferred compensation plan under Section 457(b) of the Internal Revenue Code (the Plan). The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4% for the years ended September 30, 1999 and 1998. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25% of their base compensation, subject to certain limits. Employer contributions vest at 20% per year until they reach 100% at the end of year five. Employee contributions are immediately vested.

Retirement expense recorded by the Hospital for the years ended September 30, 1999 and 1998 totaled approximately \$552,000 and \$490,000, respectively, or approximately 4% of covered payroll in each year.

#### **7. Contingencies**

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$6,000,000 per occurrence, with a total limit of \$8,000,000, and with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported.

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

#### 7. Contingencies (continued)

The Hospital is self-insured for workers' compensation up to \$50,000 per claim, and for employee health insurance up to \$100,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital purchased commercial insurance which provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 1999 and 1998 were as follows:

<b>Year Ended September 30</b>	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year End</b>
1999	\$ 672,000	\$ 2,277,000	\$ 1,967,000	\$ 982,000
1998	\$ 690,000	\$ 1,629,000	\$ 1,647,000	\$ 672,000

#### 8. Cash, Cash Equivalents and Investments

At September 30, 1999 and 1998, the bank balances of the Hospital's deposits, which are included in cash and cash equivalents, investments, and assets whose use is limited in the balance sheet, were entirely insured or collateralized with securities held by the pledging bank in the Hospital's name. In addition, the Hospital had investments in direct obligations of the U. S. Government and government agencies of \$32,930,901 and \$42,359,918 at September 30, 1999 and 1998, respectively, and in money market accounts whose underlying investments consist solely of U. S. Government securities of \$4,651,711 and \$2,141,749 at September 30, 1999 and 1998, respectively. The U. S. Government obligations are uninsured and unregistered, with securities held by the trustee in the Hospital's name. The money market funds are uninsured and unregistered, with securities held by the trustee but not in the Hospital's name.

The fair values for U. S. Government and government agency obligations are based on the market prices listed by independent pricing services. The fair values for money market accounts and certificates of deposit are based on cost. The Hospital's investments had a

## Thibodaux Regional Medical Center

### Notes to Financial Statements (continued)

#### 8. Cash, Cash Equivalents and Investments (continued)

net decrease in fair value of approximately \$1,928,000 for the year ended September 30, 1999. The change in fair value of the Hospital's investments was immaterial for the year ended September 30, 1998.

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

#### 9. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	<u>1999</u>	<u>1998</u>
Total patient service charges (excluding charity care of \$1,231,196 in 1999 and \$897,662 in 1998)	<b>\$108,455,144</b>	\$104,550,293
Contractual and other allowances:		
Medicaid	5,610,769	4,881,231
Medicare	20,590,735	21,971,728
Managed care organizations	18,504,595	15,004,761
Other	742,069	659,597
Total contractual and other allowances	<b>45,448,168</b>	42,517,317
Net patient service revenue	<b><u>\$ 63,006,976</u></b>	<b><u>\$ 62,032,976</u></b>

#### 10. Postemployment Benefits

The Hospital provides health care benefits to retired hospital employees and their families. Employees with at least 10 years of service and who are age 55 or older at retirement are eligible to participate. Effective January 1, 1996, plan participants are required to contribute 100% of the plan's monthly premium. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 1999, 33 retired employees participated in the plan. Expenses related to this plan were immaterial for the years ended September 30, 1999 and 1998.

## Thibodaux Regional Medical Center

### Required Year 2000 Supplementary Information (Unaudited)

September 30, 1999

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Hospital's computer programs and certain computer-aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

The Hospital has fully completed the awareness and assessment stages of its year 2000 project, including an inventory of computer systems and computer-aided medical equipment that may be affected by the year 2000 issue and that are necessary to conducting Hospital operations. The Hospital has determined that it will be required to modify or replace certain portions of its software, hardware, and patient care equipment so that its systems and equipment will function properly with respect to dates in the year 2000 and thereafter. The Hospital has substantially completed the remediation stage of its year 2000 project, and is using both internal and external resources to reprogram, or replace, and test the software and patient care equipment for year 2000 readiness. The Hospital has also substantially completed the validation and testing stages of its year 2000 project, including 100% completion of the mission critical systems and equipment portion of the project. The Hospital anticipates 100% completion of the entire year 2000 project by December 31, 1999. There were no significant commitments outstanding at September 30, 1999 related to the Hospital's year 2000 project.

Completion of the year 2000 project is not a guarantee that the Hospital's systems and equipment will be year 2000 compliant. The Hospital's operating results could be materially impacted if the systems and equipment of the Hospital or those of other companies on which it relies (such as third-party payors) are not compliant in a timely manner.

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

The Board of Commissioners  
Hospital Service District No. 3 of the  
Parish of Lafourche, State of Louisiana

We have audited the financial statements of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital) as of and for the year ended September 30, 1999, and have issued our report thereon dated October 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of commissioners, management, and the 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 30, 1999

## Independent Auditors' Report on Compliance With Bond Resolution

The Board of Commissioners  
Hospital Service District No. 3 of the  
Parish of Lafourche, State of Louisiana

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital) as of September 30, 1999, and the related statements of revenues, expenses and fund balance and cash flows for the year then ended, and have issued our report thereon dated October 30, 1999.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of Sections 5.1, 5.3, 5.4, 6.1, 6.2 and 7.1 of the Bond Resolution adopted by the board of commissioners on October 15, 1993 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 Hospital 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 30, 1999