

Management's Discussion and Analysis and Basic Financial Statements

**Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)**

Years ended September 30, 2009 and 2007 with Report of Independent Auditors

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 3/31/09

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis and Basic Financial Statements

Years ended September 30, 2003 and 2002

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Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis

This section of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital") annual financial report provides important background information and management's analysis of the Hospital's financial performance during the fiscal year ended September 30, 2003. Please read this section in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements contained in this report are prepared using Governmental Accounting Standards Board ("GASB") accounting principles. These financial statements offer short-term and long-term financial information about the Hospital's 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 net of risks, 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 year and can be used to determine whether the Hospital has been able to recover all of its costs through its net 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 flows operating, investing, and financing activities, and to provide answers to such questions 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. 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.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis (continued)

Balance Sheets

The Hospital's condensed balance sheets are presented below:

TABLE 1

	September 30		Dollar Change	Percent Change
	2003	2002		
	(In Thousands)			
Total current assets	\$ 21,156	\$ 34,585	\$ (9,408)	(27%)
Property, plant, and equipment - net	96,671	36,571	60,100	17
Other assets, including assets whose use is limited	89,540	77,798	11,742	15
Total assets	\$ 167,367	\$ 148,954	\$ 18,413	12
Total current liabilities	\$ 11,440	\$ 10,490	\$ 950	9%
Long-term debt	36,233	34,634	1,599	(5)
Total liabilities	47,673	45,124	\$ 2,549	6
Net assets	119,697	103,830	15,867	16
Total liabilities and net assets	\$ 167,367	\$ 148,954	\$ 18,413	12

As shown in Table 1, total assets increased by \$18,413,000, or 12%, to \$167,367,000 at September 30, 2003, up from \$148,954,000 at September 30, 2002. The change in total assets results primarily from cash generated from operations.

Current Assets

Decreases in current assets result primarily from investments being made in property, plant, and equipment, \$16,650,000 in fiscal 2003, a reduction in accounts receivable, and purchases of additional investments of approximately \$12,908,000 in fiscal 2003. Investments are classified as assets limited as to use. At September 30, 2003, current assets continued to exceed current liabilities. The current ratio decreased to 2.2 at September 30, 2003 versus 3.2 at September 30, 2002. While the decrease in this ratio indicates a deteriorating trend, these calculations exclude consideration of the investments designated by the board of commissioners for plant repair and expansion. Including these liquid investments in the calculations would yield ratios substantially in excess of industry averages.

Hospital Service District No. 3 of the Parish of Lafourche,
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Management's Discussion and Analysis (continued)

Capital Assets

The following table presents the components of the Hospital's capital assets at September 30, 2003 and 2002.

TABLE 2

	September 30	
	2003	2002
	(In Thousands)	
Land and land improvements	\$ 3,338	\$ 3,382
Building, fixed equipment, and equipment	<u>89,454</u>	<u>75,127</u>
Subtotal	92,792	78,509
Less accumulated depreciation and amortization	(46,399)	(42,359)
Construction in progress	<u>3,638</u>	<u>3,652</u>
Net property, plant, and equipment	<u>\$ 50,071</u>	<u>\$ 39,372</u>

During fiscal year 2003, the Hospital invested \$16,654,900 in a broad range of capital assets. Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of building new space to accommodate inpatient services. These additions exceeded the current fiscal year's depreciation expense resulting in a higher balance.

In Table 3, the Hospital's fiscal year 2004 capital budget projects spending up to \$28,180,080. These projects will be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 3

Equipment purchases	\$ 3,180,080
Construction/renovation	<u>25,000,000</u>
Total	<u>\$28,180,080</u>

Hospital Service District No. 3 of the Parish of Lafourche,
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Management's Discussion and Analysis (continued)

Long-Term Debt

At year end, the Hospital had \$15,993,000 in debt outstanding. The debt amount is shown net in the balance sheet of the unamortized bond discount. The debt balance has decreased by \$776,000 in fiscal year 2003, due to \$408,000 of principal payments offset by bond discount amortization. No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 10% of the Hospital's total assets as September 30, 2003.

The Hospital repaid all of its outstanding debt on January 12, 2004. A premium of \$211,000 was paid as a result of this transaction.

Net Assets

The following table presents the components of the Hospital's net assets as September 30, 2003 and 2002.

TABLE 4

	September 30	
	2003	2002
	(In Thousands)	
Invested in capital assets, net of related debt	\$ 33,413	\$12,518
Restricted	1,570	3,979
Unrestricted	300,820	88,021
	<u>\$ 635,803</u>	<u>\$124,518</u>

During 2003, total net assets increased \$12,265,000, or 10%, as a result of operating revenue exceeding operating expenses by \$11,089,000, nonoperating income of \$1,149,000, and increases in restricted net assets of \$17,000.

The Hospital purchased \$18,039,000 of property, plant, and equipment during 2003, which increased the reported amount of net assets invested in capital assets, net of related debt, and made principal payments on related debt of \$400,000. This increase was offset by depreciation expense of \$6,300,000.

**Hospital Service District No. 3 of the Parish of Lafourche,
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Management's Discussion and Analysis (continued)

Summary of Revenue and Expenses

A summary of the Hospital's revenue and expenses for fiscal years 2003 and 2002 are presented below.

TABLE 5

	Year ended September 30		Dollar	Percent
	2003	2002	Change	Change
	(in thousands)			
Revenue:				
Net patient service revenue	\$ 76,633	\$ 71,714	\$ 4,919	7%
Other revenue	1,566	1,318	248	18
Total revenue	78,199	73,032	5,178	7
Expenses:				
Salaries and wages and employee benefits and payroll taxes	29,494	27,408	2,086	7
Other operating expenses	38,524	34,618	3,906	11
Depreciation and amortization	4,884	5,863	(979)	(2)
Interest	1,837	1,891	(54)	(3)
Total expenses	74,739	69,780	4,959	11
Income from operations	3,460	3,252	(208)	(14)
Nonoperating income	1,149	5,077	(3,928)	(77)
Revenue in excess of expenses	\$ 4,609	\$ 8,329	\$ (3,720)	(45)

Net Patient Service Revenue

During fiscal year 2003, the Hospital derived 98% of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$4,898,808, or 7%, in 2003. Increases in net patient service revenue primarily are due to volume increases. Overall activity at the Hospital, as measured by patient discharges, increased 10% to 7,239 discharges in 2003 from 6,582 discharges in 2002. Patient days increased 12% over prior year from 27,427 in 2002 to 30,779 in 2003. As a result, the average length of stay for all patients (excluding newborns) increased to 4.08 days in 2003 from 3.97 days in 2002.

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Management's Discussion and Analysis (continued)

Table 6 presents the relative percentages of gross charges billed for patient services by payer for fiscal years 2001 and 2002.

TABLE 6

	Year ended September 30	
	2001	2002
Medicare	51%	48%
Managed care	26	40
Medicaid	9	7
Self-pay	4	5
	<u>100%</u>	<u>100%</u>

The following table presents the components of net patient service revenue for fiscal years 2001 and 2002.

TABLE 7

	Year ended September 30		Change	
	2001	2002	Dollar	Percent
	(\$ Thousands)			
Gross patient service charges	\$ 189,379	\$ 176,483	\$ 12,896	7%
Contractual and other allowances:				
Medicare	53,644	54,379	8,736	16
Managed care	28,283	31,192	(3,909)	(19)
Medicaid	13,833	10,858	2,981	27
Other	4,314	3,127	991	23
Total contractual allowances	<u>100,074</u>	<u>(90,356)</u>	<u>9,698</u>	<u>7</u>
Provision for bad debts	5,689	76,388	6,087	8
Net patient service revenue	<u>\$ 79,624</u>	<u>\$ 71,739</u>	<u>\$ 8,086</u>	<u>7</u>

While gross patient service charges increased \$12,896,000, or 7%, from prior year due to increased volume and rate increases, net patient service revenue, before provision for bad debts, increased \$8,087,000, or 8%, due to an increase in total contractual allowances as a percentage of gross patient service charges.

Excluded from gross patient service charges are amounts forgiven for patient services falling under the hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$739,000 were forgiven during the current fiscal year compared to \$2,126,000 in the prior fiscal year. During 2002, the

Hospital Service District No. 3 of the Parish of Lafourche,
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Management's Discussion and Analysis (continued)

Hospital adopted a new charity care policy whereby only patients meeting specific criteria will be classified as charity care. This change in policy increased bad debt expense and reduced charity care in 2003.

The provision for bad debts increased to \$5,695,000 from the prior year amount of \$4,586,000. This \$1,109,000, or 24%, increase is driven primarily by the change to the charity care policy mentioned above and the general increase in revenue for the current year.

Operating Expenses

Employee-related expenses increased \$1,045,000, or 7%, to \$29,434,000 in the current fiscal year from \$27,409,000 in the prior fiscal year. As a percentage of net patient service revenue, these expenses were approximately 38% for both 2003 and 2002. The Hospital was able to maintain this percentage through increased productivity.

Other operating expense increased \$1,586,000, or 13%, from prior year. As a percentage of net patient service revenue, these expenses increased to approximately 49% from 37% for the fiscal years ended September 2003 and 2002, respectively. This increase is due primarily to increases in supply and drug costs and professional fees.

Depreciation and amortization expense increased \$1,021,000, or 20%, from prior year. The increase is due to additions to capital assets of \$16,850,000 during 2003.

Interest expense decreased to \$1,007,000, or 4%, from the prior year. The decrease is due to a lower interest rate on the bonds during 2003.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains realized that are not directly related to the provision of health care services are also classified as nonoperating income. The net unrealized gain on market value adjustments is also included in this amount. Nonoperating income decreased from the prior year due to a settlement of a dispute with a contractor related to certain Hospital construction projects in 2002, where the Hospital recognized \$1,294,000 as other nonoperating income.

Hospital Service District No. 3 of the Parish of Lafourche,
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Management's Discussion and Analysis (continued)

Contacting the Hospital's Financial Manager

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

Report of Independent Auditors

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

We have audited the accompanying balance sheets of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (H&H Thibodaux Regional Medical Center) (the "Hospital"), as of September 30, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, effective October 1, 2002, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Government Accounting Standards Board ("GASB").

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

In accordance with Government Auditing Standards, we have also issued our report as of and for the period ended September 30, 2003 as 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

January 23, 2004

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Balance Sheets

	September 30	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,415,710	\$ 11,186,014
Investments	648,807	5,694,831
Patient accounts receivable, less allowances for uncollectible accounts of \$12,593,800 in 2003 and \$10,147,080 in 2002	13,746,195	14,264,751
Assets whose use is limited and required for current liabilities	1,425,938	1,434,626
Interest and other receivables	21,879	578,644
Inventories	1,149,717	999,586
Prepaid expenses	739,120	556,537
Total current assets	25,134,978	34,584,979
Assets whose use is limited, less amounts required for current liabilities	89,883,815	76,174,903
Unamortized debt issuance costs	215,953	223,749
Other assets	83,685	1,297,838
Property, plant, and equipment:		
Land and land improvements	3,338,977	3,361,681
Buildings and fixed equipment	43,795,319	42,972,384
Equipment	46,688,836	32,134,928
Accumulated depreciation and amortization	(46,339,590)	(42,568,817)
Construction in progress	2,638,639	3,631,695
	<u>89,071,142</u>	<u>39,371,871</u>
	\$ 164,988,995	\$ 171,885,791

	September 30	
	2003	2002
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,718,853	\$ 4,108,581
Employee compensation	3,687,089	3,414,831
Accounts due to contractual third-party payors	3,234,273	2,242,700
Payables related to assets whose use is limited:		
Accrued interest	598,313	517,313
Accounts due within one year on long-term debt	473,898	489,008
Total current liabilities	11,552,817	10,680,644
Long-term debt, less amounts due within one year	16,233,053	18,634,102
Total liabilities	27,785,870	29,314,746
Net assets:		
Invested in capital assets, net of related debt	33,412,990	22,537,738
Restricted	2,549,831	3,978,365
Unrestricted	108,828,192	98,031,408
Total net assets	156,803,815	124,538,508
	\$ 164,588,993	\$ 151,863,251

See accompanying notes.

Hospital Service District No. 3 of the Parish of Lafourche,
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Statements of Revenues, Expenses, and Changes in Net Assets

	<u>Year ended September 30</u>	
	<u>2003</u>	<u>2002</u>
Net patient service revenue	\$ 76,632,256	\$ 71,714,702
Other revenues	1,565,651	1,325,718
Total revenue	<u>78,197,907</u>	<u>73,040,420</u>
Expenses:		
Salaries and wages	24,571,667	22,663,837
Employee benefits and payroll taxes	4,482,913	4,744,879
Professional fees	8,381,288	6,618,637
Supplies and materials	11,412,884	10,501,369
Purchased services	8,254,889	5,032,998
Other	8,965,789	4,663,967
Depreciation and amortization	6,884,389	5,063,628
Interest	1,836,676	1,088,645
Total expenses	<u>67,899,252</u>	<u>60,181,328</u>
Income from operations	11,098,655	12,859,132
Nonoperating income:		
Investment income	1,247,774	1,691,021
Other	1,861	1,385,789
Total nonoperating income	<u>1,249,635</u>	<u>3,076,810</u>
Revenue in excess of expenses	<u>12,348,290</u>	<u>15,935,942</u>
Increase in restricted net assets	16,693	49,281
Net assets at beginning of year	114,538,591	108,513,518
Net assets at end of year	<u>\$ 131,886,884</u>	<u>\$ 124,518,561</u>

See accompanying notes.

Hospital Service District No. 3 of the Parish of Lafourche,
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Statements of Cash Flows

	Year ended September 30	
	2005	2004
Operating activities		
Revenues collected	\$ 79,688,054	\$ 75,211,941
Cash payments to employees and for employee-related costs	(29,211,609)	(27,628,499)
Cash payments for operating expenses	(26,735,913)	(25,482,948)
Net cash provided by operating activities	<u>23,740,532</u>	<u>22,100,512</u>
Investing activities		
Interest received on investments	1,344,074	1,793,462
Net decrease in funds designated under bond resolutions	1,499,893	23,124
Net increase in funds designated by board for plant repair and expansion	(14,288,177)	(6,594,730)
Net (increase) decrease in investments	<u>4,555,870</u>	<u>(4,798,174)</u>
Net cash used in investing activities	<u>(6,777,444)</u>	<u>(3,002,990)</u>
Capital and related financing activities		
Purchases of property, equipment, and other assets	(8,449,518)	(11,548,111)
Proceeds on sale of property, equipment, and other assets	27,887	-
Principal payments on debt incurred for capital purposes	(773,990)	(508,000)
Interest payments on debt	(1,895,801)	(1,251,312)
Net cash used in capital and related financing activities	<u>(12,991,722)</u>	<u>(13,007,423)</u>
Noncapital financing activity		
Order accompanying income received, net	1,462	1,142,879
Net cash provided by noncapital financing activity	<u>1,462</u>	<u>1,142,879</u>
Net increase (decrease) in cash and cash equivalents	<u>(5,778,280)</u>	<u>4,714,896</u>
Cash and cash equivalents at beginning of year	<u>11,286,814</u>	<u>6,471,918</u>
Cash and cash equivalents at end of year	<u>\$ 5,508,534</u>	<u>\$ 11,186,814</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 11,899,877	\$ 12,679,131
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	5,567,810	4,692,403
Amortization	548,348	458,165
Interest expense on debt	1,892,627	1,289,699
Provision for doubtful accounts	3,694,949	4,566,288
Gain on sale of equipment	4,455	(9,582)
Changes in operating assets and liabilities:		
Increase in public accounts receivable	(1,178,000)	(1,648,477)
(Increase) decrease in other receivables	556,774	(541,403)
Increase in investments and prepaid expenses	(262,774)	(37,488)
(Increase) decrease in other assets	1,204,793	(714,203)
Increase (decrease) in accounts payable, accrued expenses, and employee compensation	(123,999)	1,634,121
Increase in accounts due in contractual third-party payers	973,949	1,781,772
Net cash provided by operating activities	<u>\$ 26,899,803</u>	<u>\$ 21,308,522</u>

See accompanying notes.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements

September 30, 2003

I. 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, 1988.

Method of New Accounting Standards

The GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governmental Entities*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements, and required supplementary information (RSI) as required by other GASB statements. These statements were required to be adopted on October 1, 2003 by the Hospital.

Hospital Service District No. 3 of the Parish of Lafourche,
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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenue, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt, restricted, and unrestricted. These components are defined as follows:

- *Invested in capital assets, net of related debt*—This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted*—This component reports those net assets with externally imposed constraints placed 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. Income earned on net assets reported in this component is reported as an increase in restricted net assets in the accompanying statements of revenue, expenses, and changes in net assets.
- *Unrestricted*—This component reports net assets that do not meet the definition of either of the other two components.

The adoption of Statement No. 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset components. Additionally, the Hospital restated the 2002 statement of cash flows to conform to the direct method of reporting cash receipts and disbursements.

The Statements also require that the Hospital recognize the provision for bad debts as a component of net patient service revenue.

Hospital Service District No. 3 of the Parish of Lafourche,
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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

Operating Revenue and Nonoperating Income

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 revenue. Operating revenue includes that generated from direct patient care, related support services, gains or losses from disposition of operating properties, rental income, and sundry revenues related to the operation of the Hospital.

Income, gains, and losses from investments not generated from operating funds and those 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.

Net Patient Service Revenue

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payers, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 42% in 2003 and 41% in 2002.

Hospital Service District No. 3 of the Parish of Lafourche,
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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Retrospective settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payers in the financial statements. The differences between these estimates and final determinations of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in increases to net patient service revenue of \$566,000 in 2001 and \$385,000 in 2002. Estimated settlements through September 30, 2003 for the Medicare program and through September 30, 1999 for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports will subject to review at September 30, 2003 will be reported in the Hospital's results of operations as such determinations are made.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes 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.

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 revenues. Charity care provided was \$758,000 in 2001 and \$2,125,000 in 2002. The Hospital changed its charity care policy in 2003 and the effect was an increase in bad debt expense and a decrease to charity care.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

Investments

All investments are stated at fair value based on quoted market price. Changes in the fair value of investments are included in investment income.

Inventories

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

Unamortized Debt Insurance 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.

Reclassifications

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

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Long-Term Debt

The details and balances of long-term debt as of September 30, 2003 and 2002 are presented below:

	2003	2002
Hospital Revenue Bonds, Series 1993	\$ 16,858,000	\$ 17,350,000
Less: Unamortized original issue discount	290,000	315,000
Amounts due within one year	415,000	400,000
	\$ 16,233,181	\$ 16,635,102

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

	Principal	Interest
2004	\$ 415,000	\$ 1,000,918
2005	450,000	976,875
2006	475,000	950,250
2007	500,000	921,000
2008	525,000	890,250
2009 – 2013	3,215,000	3,911,250
2014 – 2018	4,250,000	2,797,500
2019 – 2023	5,750,000	1,568,500
2024 – 2029	1,350,000	49,500
Total long-term debt	\$ 16,950,000	\$ 12,795,063

The 1993 Revenue Bonds consist of \$425,000 of 3.5% term bonds due October 1, 2004; \$4,725,000 of 6.0% term bonds due October 1, 2002; 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, 2003, 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, 2003.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

2. Long-Term Debt (continued)

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, 2003 and 2002. The 1993 Revenue Bonds are secured by a pledge of the Hospital's revenues.

Subsequent to September 30, 2003, the 1993 Revenue Bonds were repaid in full. A redemption premium of \$531,000 was paid and unamortized discount and bond issuance costs of \$493,808 were expensed.

3. Cash, Cash Equivalents, and Investments

At September 30, 2003 and 2002, 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 \$2,693,742 and \$2,533,341 at September 30, 2003 and 2002, respectively, and in money market accounts whose underlying investments consist solely of U.S. Government securities of \$271,403 and \$5,980,677 at September 30, 2003 and 2002, respectively. The U.S. Government obligations are unsecured and unregistered, with securities held by the trustee in the Hospital's name. The money market funds are unsecured 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 which equals fair value.

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

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash, Cash Equivalents, and Investments (continued)

highest rating category 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).

4. Assets Whose Use Is Limited

Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets. The total composition of assets whose use is limited at September 30, 2003 and 2002 is set forth below:

	<u>2003</u>	<u>2002</u>
Funds designated by board for plant repair and expansion	\$ 87,599,942	\$ 73,633,164
Funds designated under bond resolutions for Hospital Revenue Bonds, Series 1993:		
Debt Reserve Fund	1,468,899	1,478,333
Debt Service Fund	1,160,834	2,581,632
	<u>\$ 90,229,675</u>	<u>\$ 77,693,129</u>

Subsequent to September 30, 2003, approximately \$17,500,000 of the board-designated funds were used in connection with the redemption of the 1993 Revenue Bonds.

5. Retirement Plan

The Hospital sponsors 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, 2003 and 2002. 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.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

5. Retirement Plan (continued)

Retirement expense recorded by the Hospital for the years ended September 30, 2003 and 2002 totaled approximately \$598,000 and \$562,000, respectively, or approximately 4% of covered payroll in each year.

6. Contingencies

The Hospital participates in the State of Louisiana Patient 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 \$5,000,000 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 \$200,000 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.

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 coverage for workers' compensation and employee health claims in excess of the self-insured limits.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

4. Contingencies (continued)

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employer health insurance in fiscal years 2001 and 2002 were as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Beginning of</u> <u>Fiscal Year</u> <u>Liability</u>	<u>Current Year</u> <u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Balance</u> <u>at Fiscal</u> <u>Year End</u>
2001	\$ 1,802,000	\$ 2,126,000	\$ 2,874,000	\$1,054,000
2002	\$ 1,674,000	\$ 2,674,000	\$ 3,540,000	\$1,802,000

7. 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 premiums. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 2001, 23 retired employees participated in the plan. Expenses related to this plan were immaterial for the years ended September 30, 2001 and 2002.

8. Construction Settlement

In 2002, the Hospital received \$1,475,000 due to settlement of a dispute with a contractor related to certain Hospital construction projects. The Hospital recognized \$1,294,000 of this settlement as other nonoperating income. Additionally in 2002, management relieved a liability of \$669,000 related to the dispute and reduced the net cost of certain previously capitalized assets by \$628,000.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

9. Property, Plant, and Equipment

Property, plant, and equipment at September 30, 2003 and 2002 consisted of:

	Beginning		Reclassification /		Ending
	Balance	Addition	Retirements		Balance
Land and land improvements	\$ 3,361,644	\$ -	\$ (23,604)		\$ 3,338,040
Building and fixed equipment	43,952,180	799,311	23,800		44,727,691
Equipment	31,154,929	11,716,359	1,787,644		41,083,644
Construction in progress	3,651,655	4,173,915	(5,187,499)		2,638,071
	<u>82,110,408</u>	<u>16,689,585</u>	<u>(7,038,543)</u>		<u>91,761,450</u>
Less accumulated depreciation and amortization	(41,598,117)	(5,866,114)	1,293,611		(46,170,620)
Property, plant, and equipment, net	<u>\$ 40,512,291</u>	<u>\$ 10,823,471</u>	<u>\$ (5,744,932)</u>		<u>\$ 45,590,830</u>

10. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 2008. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

2004	\$ 223,719
2005	171,691
2006	121,117
2007	19,147
2008	384
	<u>\$ 545,068</u>

Total rental expense was \$1,254,000 in 2000 and \$1,116,800 in 2001.

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

10. Operating Leases (continued)

The Hospital leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. The future minimum lease payments to be received from these leases follow:

2004	\$ 671,848
2005	640,340
2006	628,200
2007	82,268
	<u>\$ 1,822,656</u>

The cost of assets held for lease totaled \$5,096,800 at September 30, 2003. Related accumulated amortization was approximately \$214,800 at September 30, 2003.

11. Concentrations of Credit Risk

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

	2003	2002
Self-pay	38%	37%
Medicare	28	30
Medicaid	18	9
Managed care	17	21
Other	2	3
	<u>100%</u>	<u>100%</u>

Hospital Service District No. 3 of the Parish of Lafourche,
State of Louisiana (d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

II. 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. While not material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unassessed at this time.

**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 Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (John Tillotson Regional Medical Center) (the "Hospital") as of and for the year ended September 30, 2003, and have issued our report thereon dated January 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 these 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

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 matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Hospital in a separate letter dated January 22, 2004.

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

January 22, 2004

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 auditing standards generally accepted in the United States, the balance sheet of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (A/k/a Thibodaux Regional Medical Center) (the "Hospital") as of September 30, 2004, and the related statements of revenues, expenses, and change in net assets, and cash flows for the year then ended, and have issued our report thereon dated January 22, 2004.

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, 5.2, 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 board of commissioners, management, Office of Legislative Audits, State of Louisiana, and the bond trustee 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.



January 22, 2004

The Board of Commissioners

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

In planning and performing our audit of the financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (H/S's Thibodaux Regional Medical Center) (the "Hospital") for the year ended September 30, 2000, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements due to error or fraud in accounts 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. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

During our audit, the following matters came to our attention that we believe merit your consideration.

Significant Estimation Processes

Adequacy of the Allowance for Doubtful Accounts

The accounts receivable allowance for doubtful accounts is a significant subjective estimate for the Hospital. Management utilizes historical accounts receivable write-offs, recoveries and collections as support for the estimate. Management's estimate of the net realizable value of the accounts receivable has historically proven to be conservative. Based on our discussions with management, we believe the historical information used in the estimate has not been updated in several years. Changes in the Hospital's collection policy, changes in the payer mix, and changes in the health care environment all can significantly impact this estimate. During the current year, the Hospital experienced deterioration in the aging of receivables primarily due to the accounts receivable system conversion billing delays. In addition, billing delays related to new Medicaid documentation requirements have also contributed to the deterioration in the aging.

The percentages utilized in estimating the Hospital's allowance for doubtful accounts have remained stable over the last several years. However, we believe that the recent changes in the operating environment are significant enough to warrant a reassessment of the allowance percentages. Therefore, we suggest management undertake such an effort to validate the appropriate information in the coming year and periodically thereafter.

Management's Response

Detailed bad debts reports will be run to analyze trends in accounts being written off to determine if revisions in the allowance percentages are necessary. The change in our charity care policy has had an effect on some accounts being classified as bad debts rather than charity care as in prior years. Additional effort has been focused on the process of collecting the required Medicaid documentation in a more timely manner.

Third-Party Settlement Reserve

As part of the third-party settlement estimation process, management provides the uncertainties that exist in preparing the cost report due to the potential that there are differing interpretations of government regulations. We believe that the uncertainties in this estimate are currently not as significant due to the elimination of most cost-based reimbursement programs. In addition, the Hospital has had few significant third-party settlement adjustments related to fiscal intermediary cost report settlements.

We recommend that management modify the reserve estimate process to consider recent experience and changing governmental reimbursement methods to ensure that the recorded reserves are appropriate in the current environment.

Management's Response

Reserve estimates will be adjusted as prior year cost reports are settled. The Hospital has been conservative in the past due to the possibility of cost report reopenings which can occur as late as three years after the initial cost report is reviewed by the Medicare and Medicaid programs.

* * * * *

This report is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.



January 23, 2004