

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

3. 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 \$500,000 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 \$1,000,000, with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$500,000 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 \$250,000 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 recalculated 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.

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 1997 and 1998 were as follows:

Year Ended September 30	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
1997	\$ 721,000	\$ 1,390,000	\$ 1,421,000	\$ 690,000
1998	\$ 395,000	\$ 1,985,000	\$ 1,661,000	\$ 721,000

Trilobius Regional Medical Center

Notes to Financial Statements (continued)

5. Assets Whose Use is Limited

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

	1997	1996
Funds designated by board for plant repair and expansion	\$ 32,748,724	\$ 25,000,866
Funds designated under board resolutions for debt retirement:		
Public Improvement Bonds, Series 1977	4,688	82,514
Hospital Revenue Bonds, Series 1983:		
Debt Reserve Fund	1,563,485	1,643,500
Debt Service Fund	1,062,778	2,358,356
Funds designated under board resolution for construction	2,574,393	5,527,485
	\$ 38,851,966	\$ 32,614,721

6. Retirement Plan

Effective September 1, 1993, the Hospital implemented a defined contribution plan under Section 402(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, 1997 and 1996. 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, 1997 and 1996 totaled approximately \$498,800 and \$359,000, respectively, or approximately 4% of covered payroll in each year.

Thibodaux Regional Medical Center
Notes to Financial Statements (continued)

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:

	1997	1996
Equipment	\$ 4,240,094	\$ 4,240,094
Accumulated amortization	\$ 3,999,548	2,874,913
Net book value	\$ 240,546	\$ 1,365,181

The amounts of future minimum lease payments are as follows:

Year ending September 30:	
1998	\$ 398,004
1999	312,004
2000	60,380
Total minimum lease payments	770,388
Less amount representing maintenance costs, included in total minimum lease payments	188,980
Net minimum lease payments	581,408
Less amount representing interest	34,625
Present value of net minimum lease payments (including \$312,900 classified as current)	\$ 568,783

TriHoskins Regional Medical Center

Notes to Financial Statements (continued)

1. Long-Term Debt (continued)

The 1993 Revenue Bonds consist of \$1,000,000 of serial bonds (original issue \$1,875,000) with interest rates ranging from 4.4% to 4.8%, payable in annual installments of \$325,000 to \$350,000 from 1998 to 2000; \$1,000,000 of 5.50% term bonds due October 1, 2004; \$4,725,000 of 6.00% term bonds due October 1, 2002; and \$11,350,000 of 6.00% 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, 2005, 2006, and 2007, 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.

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 1.25. The Hospital was in compliance with these covenants for the years ended September 30, 1997 and 1996. The 1993 Revenue Bonds are secured by a pledge of the Hospital's revenue.

The Hospital incurred total interest costs of \$1,259,000 and \$1,332,000 during the years ended September 30, 1997 and 1996, respectively. Interest costs (including amortization of bond discount and costs of issuance), net of interest earned, which have been capitalized as costs of construction, are as follows:

	<u>1997</u>	<u>1996</u>
Interest costs	\$ 172,000	\$1,041,000
Interest earned	<u>25,000</u>	<u>704,000</u>
Net financing costs capitalized	<u>\$ 147,000</u>	<u>\$ 337,000</u>

TriHudson Regional Medical Center

Notes to Financial Statements (continued)

3. Third-Party Payer 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.

4. Long-Term Debt

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

	<u>1997</u>	<u>1996</u>
Public Improvement Bonds, Series 1977, 5.6%, due serially to 2002, with remaining annual installments ranging from \$80,000 to \$100,000 (\$80,000 due in 1998)	\$ 400,000	\$ 525,000
Hospital Revenue Bonds, Series 1993, 4.4% to 6.0%, less unamortized discount of \$643,470 at September 30, 1997 (terms described below) (\$425,000 due in 1998)	<u>19,681,500</u>	<u>19,954,850</u>
	<u>19,151,500</u>	<u>20,479,850</u>
Less amounts due within one year	<u>400,000</u>	<u>575,000</u>
	<u>\$ 18,751,500</u>	<u>\$ 19,904,850</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: 1998—\$405,000; 1999—\$410,000; 2000—\$440,000; 2001—\$470,000; 2002—\$500,000; and \$17,350,000 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 reverse order of maturities on any interest payment date.

On December 23, 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 rail 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)

1. Organization and Significant Accounting Policies (continued)

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.

Reclassifications

Certain amounts in the 1996 financial statements have been reclassified to conform with the 1997 presentation.

2. Third-Party Payer 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, 1997 and 1996, approximately 34% and 35%, 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 it has no reason 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, 1995 for the Medicare program and September 30, 1994 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 \$1,553,000 for the year ended September 30, 1997 and had an immaterial effect on net patient service revenue for the year ended September 30, 1996.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 bond discount on the 1993 Revenue Bonds is being amortized over the terms of the bonds using the interest method.

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. Interest earnings on investments, gains

Tribedans Regional Medical Center

Notes to Financial Statements (continued)

I. 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

September 30, 1997

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 (the 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.

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.

TriHodaux Regional Medical Center

Statements of Cash Flows

	Year ended September 30	
	1997	1996
Operating activities		
Income from operations	\$ 9,496,388	\$ 7,250,024
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,368,685	3,913,887
Interest expense on debt and capital leases	1,887,885	298,836
Changes in operating assets and liabilities:		
Decrease (increase) in patients accounts receivable	(979,874)	244,685
Decrease (increase) in other receivables	(38,381)	117,427
Increase in inventories and prepaid expenses	(69,845)	(108,540)
Increase in accounts payable and employee compensation	484,859	1,283,553
Increase (decrease) in amounts due to contractual third-party payors	(383,708)	51,716
Net cash provided by operating activities	<u>13,578,307</u>	<u>12,441,588</u>
Noncapital financing activities		
Taxes and revenue-sharing proceeds received for operations	5,366	77,583
Other nonoperating income received	1,142	13,958
Net cash provided by noncapital financing activities	<u>6,508</u>	<u>91,541</u>
Capital and related financing activities		
Purchases of property, plant and equipment	(5,871,948)	(3,319,681)
Principal payments on debt incurred for capital purposes	(379,080)	(379,080)
Principal payments on capital lease obligations	(793,942)	(869,483)
Interest payments on debt and capital lease obligations	(1,218,855)	(1,292,089)
Taxes accrued for debt retirement	1,439	28,283
Net cash used in capital and related financing activities	<u>(7,860,886)</u>	<u>(5,829,890)</u>
Investing activities		
Interest received on investments	2,025,525	1,668,304
Decrease in funds designated under bond resolutions	4,518,815	3,043,876
Increase in funds designated by board for plant repair and expansion	(9,747,888)	(7,129,772)
Decrease (increase) in investments	(499,369)	511,158
Acquisition of physician practices	=	(273,088)
Net cash used in investing activities	<u>(3,900,827)</u>	<u>(2,889,552)</u>
Net increase in cash and cash equivalents	2,823,289	322,097
Cash and cash equivalents at beginning of year	2,683,124	2,361,027
Cash and cash equivalents at end of year	<u>\$ 4,506,413</u>	<u>\$ 2,683,124</u>

See accompanying notes.

Tribulus Regional Medical Center

Statements of Revenues, Expenses and Fund Balance

	Year ended September 30	
	1997	1996
Net patient service revenue (Note 3)	\$ 61,749,698	\$ 54,180,318
Other revenue	646,703	474,241
Total revenue	<u>62,396,401</u>	<u>54,654,559</u>
Expenses:		
Salaries and wages	19,397,496	17,210,380
Employer benefits and payroll taxes	3,535,487	3,743,715
Professional fees	6,598,519	5,640,034
Supplies and materials	8,575,662	8,181,496
Purchased services	2,778,494	3,034,169
Provision for bad debts	3,803,680	2,588,321
Other	3,676,412	3,431,677
Depreciation and amortization	4,309,688	3,311,287
Interest (Note 3)	1,887,685	200,876
Total expenses	<u>63,916,647</u>	<u>47,414,335</u>
Income from operations	9,479,754	7,240,224
Nonoperating income:		
Interest earned on investments	1,978,500	1,335,662
Other	5,867	117,518
Total nonoperating income	<u>1,984,367</u>	<u>1,453,180</u>
Revenue in excess of expenses	<u>11,464,121</u>	<u>8,703,404</u>
Fund balance at beginning of year	88,173,699	89,470,453
Fund balance at end of year	<u>99,637,794</u>	<u>98,173,857</u>

See accompanying notes.

	September 30	
	1997	1996
Liabilities and fund balance		
Current liabilities:		
Trade accounts payable	\$ 2,168,700	\$ 2,008,438
Employee compensation	1,991,683	1,639,050
Amounts due to contractual third-party payors (Note 2)	1,194,883	2,008,583
Payables related to assets whose use is limited (Note 3):		
Construction accounts payable	650,053	638,100
Accrued interest	572,151	581,651
Amounts due within one year on long-term debt	485,000	575,000
Amounts due within one year on capitalized lease obligations (Note 4)	512,903	793,843
Total current liabilities	<u>7,285,414</u>	<u>8,143,154</u>
Long-term debt, less amounts due within one year (Note 2)	18,726,538	19,104,850
Capitalized lease obligations, less amounts due within one year (Note 4)	342,870	595,275
Fund balance	69,636,704	58,173,659
	<u>\$ 95,011,526</u>	<u>\$ 85,977,476</u>

See accompanying notes.

Tribotaux Regional Medical Center

Balance Sheets

	September 30	
	1997	1996
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 4,786,832	\$ 2,683,124
Investments (Note 4)	4,387,529	3,897,229
Patient accounts receivable, less allowances for uncollectible accounts of \$6,121,000 in 1997 and \$5,338,000 in 1996	8,454,869	8,435,191
Assets whose use is limited and required for current liabilities (Notes 3, 5 and 6)	1,627,244	1,593,191
Interest and other receivables	64,884	19,583
Inventories	809,088	857,029
Prepaid expenses	381,184	324,688
Total current assets	21,443,847	17,810,015
Assets whose use is limited, less amounts required for current liabilities (Notes 3 and 6)	36,424,732	31,021,530
Unamortized debt issuance costs	328,146	347,282
Other assets	412,448	545,698
Property, plant and equipment (Notes 3 and 4):		
Land and land improvements	2,041,646	1,903,584
Buildings and fixed equipment	84,731,188	18,399,020
Equipment	38,898,871	22,218,029
Accumulated depreciation and amortization	(26,809,598)	(22,710,635)
Construction in progress	244,361	17,033,138
	77,206,435	36,248,196
	\$ 99,811,688	\$ 85,071,426

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), as of September 30, 1997 and 1996, 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. These 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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

October 31, 1997

Trihudson Regional Medical Center

Financial Statements

Years ended September 30, 1997 and 1996

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Financial Statements

Thibodaux Regional Medical Center

Years ended September 30, 1997 and 1996
with Report of Independent Auditors

Thibodaux Regional Medical Center

September 30, 1997

Audited Financial Statements

Report of Independent Auditors on the Internal Control Structure

Report of Independent Auditors on Compliance With Laws and Regulations

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewer, 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 FEB 11 1998

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Report of Independent Auditors on Compliance With Laws and Regulations

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

We have audited the financial statements of Theologia Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) as of and for the year ended September 30, 1987, and have issued our report thereon dated October 31, 1987.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to the Hospital is the responsibility of the Hospital's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The Hospital has advised us that it has not received any grants; accordingly, no procedures were performed by us with respect to grants.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the board of commissioners, management, and the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.



October 31, 1987

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the board of commissioners, management, and the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

October 30, 1997

Report of Independent Auditors on the Internal Control Structure

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) as of and for the year ended September 30, 1997, and have issued our report thereon dated October 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and 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.

The management of the Hospital is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Hospital for the year ended September 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk 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 structure. Accordingly, we do not express such an opinion.

Trinidad Regional Medical Center

Notes to Financial Statements (continued)

16. 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 over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 1997, 28 retired employees participated in the plan. Expenses related to this plan were immaterial for the years ended September 30, 1997 and 1996.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

8. Cash, Cash Equivalents and Investments

At September 30, 1997 and 1996, 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 mainly 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 with carrying amounts of \$24,150,540 and \$18,685,052, at cost, at September 30, 1997 and 1996, respectively, and in money market accounts whose underlying investments consist solely of U. S. Government securities with carrying amounts of \$1,364,542 and \$1,652,637, at cost, at September 30, 1997 and 1996, 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 carrying amounts of the Hospital's investments approximate market value at September 30, 1997 and 1996.

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:

	1997	1996
Total patient service charges (excluding charity care of \$1,137,946 in 1997 and \$1,045,524 in 1996)	\$ 180,748,389	\$ 93,986,830
Contractual and other allowances:		
Medicaid	4,177,771	6,088,078
Medicare	25,197,822	24,890,583
Managed care organizations	6,996,749	6,414,585
Other	2,633,139	2,410,546
Total contractual and other allowances	38,995,481	39,794,212
Net patient service revenue	<u>\$ 141,752,908</u>	<u>\$ 54,192,618</u>