Deferred financing costs and other assets include the Hospital's equity investment in a managed care organization purchased in fiscal 1997 (see Note 4), expenses incurred in connection with the issuance of the 1988 Bonds which are being amortized over the term of the applicable bonds maturing in installments through 2015, and $585,700 in certificates of deposit which are pledged as security under various insurance plans.

Property, Plant and Equipment

Property is recorded at acquisition cost, including interest expense capitalized during construction. No interest was capitalized in 1997 or 1996. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets, which range from 5 to 25 years.

Statement of Revenues and Expenses

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are included in Income from Operations; all peripheral transactions are reported as Non-operating Income.

Net Revenue From Services and Related Receivables

The Hospital provides medical services to government payment program beneficiaries (approximately 66% of combined gross patient service charges in 1997 and 1996 were derived from services furnished to Medicare and Medicaid program beneficiaries) and has agreements with other third-party payers that provide for payments at amounts different from its 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 from patients, third-party payer and others for services rendered.

Retroactive settlements are provided for in some of the government payment programs outlined above, based upon annual cost reports; such settlements are estimated and recorded as amounts due from such programs in the combined financial statements. The difference between these estimates and final determination of amounts to be received based on audits by fiscal intermediaries is reported as an adjustment to net patient revenue when such determinations are made. Management believes that the effect of any such adjustments that may be made to cost reports subject to review at March 31, 1997 will not be material to the Hospital's financial position or results of operations.

The Hospital is unable to predict the future course of Federal, state and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Basis of Presentation

Terrebonne General Medical Center (the Hospital) is owned by Hospital Service District No. 1 of the Parish of Terrebonne, State of Louisiana (the District), a political subdivision of the State of Louisiana. The District is exempt from Federal income taxation as a political subdivision of the State of Louisiana and, accordingly, the accompanying financial statements do not include any provision for income taxes. The Hospital reports in accordance with generally accepted accounting principles (GAAP) as specified by the American Institute of Certified Public Accountants' (AICPA) "Audits of Providers of Health Care Services" and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board. GAAP requires management to make assumptions and estimates about amounts recorded or disclosed in the financial statements; actual results may vary from these estimates.

To finance the construction of a 261-bed facility to replace the previous facility, the District issued revenue bonds of $27.3 million and the Parish issued sales tax bonds of $20.0 million on April 1, 1981 (collectively the 1981 Bonds). The Hospital issued $42.6 million of revenue refunding bonds in 1985 (the 1985 Bonds) to retire the 1981 Bonds. The Hospital issued $47.3 million of revenue refunding bonds in fiscal 1989 (the 1988 Bonds - see Note 4) to defease the 1985 Bonds. As of March 31, 1997, all of the 1981 Parish sales tax bonds and the 1985 bonds have been retired or called for redemption, thus none of the bonds in these issues remain outstanding. Bond Hist. ✓

The Hospital classifies funds as either designated or non-designated. Designated funds have been designated for specific purposes by the Hospital Board or donors. Gifts, grants and bequests not designated by donors for specific purposes are reported as non-operating income. Gifts, grants and bequests designated by donors for a specific purpose are reported as additions to designated funds.

Inventory

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Investments and Other Assets

Investments and other assets are stated at cost or amortized cost (see Note 3), as applicable, plus accrued interest. Investment income is recorded as non-operating revenue.

TERREBONNE GENERAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 1997 AND 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES:		
Revenues in excess of expenses	$ 9,293,005	$ 12,740,836
Adjustments to reconcile revenues in excess of expenses to net cash provided by operating activities and gains and losses-		
Depreciation and amortization	7,772,909	7,350,087
Gain (loss) on sale of equipment	(8,779)	1,025
(Increase) decrease in patient accounts receivable	(1,344,780)	(1,458,290)
(Increase) decrease in government program receivables	105,313	(1,721,772)
(Increase) decrease in other current assets	(330,496)	13,816
(Increase) decrease in inventory	342,055	(212,622)
(Increase) decrease in prepaid expenses	(117,223)	16,579
Increase in accounts payable	1,658,822	1,701,477
Increase (decrease) in accrued liabilities	152,805	76,521
Increase (decrease) in government program payables	1,511,316	(590,639)
Net cash provided by operating activities	19,034,947	17,917,018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment, net	(11,839,350)	(11,851,932)
Net (increase) decrease in investments and other long-term assets	(15,350,539)	2,197,361
Net cash used in investing activities	(27,189,889)	(9,654,571)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	5,013,400	26,800
Principal payments on 1988 Hospital bonds	(1,090,000)	(1,020,000)
Principal payments under capital lease and other long-term debt obligations	(571,357)	(1,057,870)
Net cash used in financing activities	3,352,043	(2,051,070)
NET INCREASE (DECREASE) IN CASH	(4,802,899)	6,211,377
CASH AT BEGINNING OF YEAR	13,998,684	7,787,307
CASH AT END OF YEAR	$ 9,195,785	$ 13,998,684

The accompanying notes are an integral part of these financial statements.

TERREBONNE GENERAL MEDICAL CENTER

STATEMENTS OF CHANGES IN FUND BALANCES

FOR THE YEARS ENDED MARCH 31, 1997 AND 1996

	Funds Designated for Specific Purposes	Non-designated Funds	Total
BALANCE, March 31, 1995	$ 99,415,950	$ 29,269,163	$128,685,113
Revenues in excess of expenses	6,295,012	6,445,824	12,740,836
Transfer to funds designated for plant replacement and expansion	(11,492,253)	11,492,253	-
BALANCE, March 31, 1996	94,218,709	47,207,240	141,425,949
Revenues in excess of expenses	5,571,375	3,721,630	9,293,005
Transfer to funds designated for plant replacement and expansion	(858,822)	858,822	-
BALANCE, March 31, 1997	$ 98,931,262	$ 51,787,692	$150,718,954

The accompanying notes are an integral part of these financial statements.

TERREBONNE GENERAL MEDICAL CENTER

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED MARCH 31, 1997 AND 1996

	1997	1996
NET REVENUE FROM SERVICES (Note 1)	$103,148,376	$ 99,238,915
OTHER REVENUE, net	4,144,061	3,184,977
Total net operating revenues	107,292,437	102,423,892
OPERATING EXPENSES:		
Salaries, wages and benefits (Note 5)	51,896,838	47,657,458
Supplies	22,033,505	19,457,120
Purchased services	9,153,748	8,741,542
Professional fees	4,078,687	3,935,367
Depreciation and amortization	7,772,909	7,350,087
Interest expense	2,993,478	3,097,551
Provision for bad debts	1,361,701	1,880,000
Other	4,537,735	4,148,126
Total operating expenses	103,828,601	96,267,251
INCOME FROM OPERATIONS	3,463,836	6,156,641
NON-OPERATING INCOME (Note 1):		
Investment income-		
Funds held by trustee	257,794	289,183
Other	5,571,375	6,295,012
Total non-operating income	5,829,169	6,584,195
REVENUES IN EXCESS OF EXPENSES	$ 9,293,005	$ 12,740,836

The accompanying notes are an integral part of these financial statements.

TERREBONNE GENERAL MEDICAL CENTER

BALANCE SHEETS

AS OF MARCH 31, 1997 AND 1996

LIABILITIES AND FUND BALANCES	1997	1996
CURRENT LIABILITIES:		
Current maturities of long-term debt and capitalized leases	$ 2,963,173	$ 1,647,957
Accounts payable	6,963,417	5,304,595
Accrued liabilities	7,119,678	6,966,874
Estimated payables under government payment programs (Note 1)	3,717,694	3,512,037
Total current liabilities	20,763,962	17,431,463
LONG-TERM DEBT AND LEASE OBLIGATIONS (Note 4):		
Hospital revenue bonds	36,804,979	37,934,865
Notes payable and capitalized leases	3,824,976	626,106
	40,629,955	38,560,971
COMMITMENTS AND CONTINGENCIES (Note 6)	-	-
FUND BALANCES (Note 1):		
Designated for specific purposes	98,931,262	94,218,709
Non-designated	51,787,692	47,207,240
	150,718,954	141,425,949
	$212,112,871	$197,418,383

The accompanying notes are an integral part of these financial statements.

TERREBONNE GENERAL MEDICAL CENTER

BALANCE SHEETS

AS OF MARCH 31, 1997 AND 1996

ASSETS	1997	1996
CURRENT ASSETS:		
Cash (Note 2)	$ 9,195,785	$ 13,998,684
Patient accounts receivable, net of allowance for doubtful accounts of $9,492,075 in 1997 and $8,774,611 in 1996	10,090,341	8,745,561
Estimated receivables under government payment programs (Note 1)	834,144	2,345,116
Inventories (Note 1)	2,817,211	3,159,266
Prepaid expenses	736,534	619,311
Other current assets	435,398	104,902
Total current assets	24,109,413	28,972,840
PROPERTY, PLANT AND EQUIPMENT AT COST (Note 1):		
Land	11,229,064	10,335,262
Buildings	48,952,360	40,121,199
Equipment	66,377,926	62,948,615
Construction-in-progress	5,967,885	8,979,785
	132,527,235	122,384,861
Less- Accumulated depreciation	(60,751,321)	(55,266,463)
	71,775,914	67,118,398
BOARD-DESIGNATED INVESTMENTS AND OTHER ASSETS (Notes 1 and 3):		
Funds designated for retirement of debt	38,425,000	39,515,000
Funds designated for plant replacement and expansion	60,506,261	54,703,709
Funds held by trustee	4,063,421	4,097,893
Deferred bond issue costs and other assets	13,232,862	3,010,543
	116,227,544	101,327,145
	$212,112,871	$197,418,383

The accompanying notes are an integral part of these financial statements.

ARTHUR ANDERSEN LLP

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Commissioners of Hospital Service
District No. 1 of Terrebonne Parish, Louisiana:

We have audited the accompanying balance sheets of Terrebonne General Medical Center (Hospital Service District No. 1 of Terrebonne Parish, Louisiana, "the Hospital") as of March 31, 1997 and 1996, and the related statements of revenues and expenses, changes in fund balances 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 for financial audits contained in Government Auditing Standards (1994 Revision) 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 Terrebonne General Medical Center as of March 31, 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.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the Hospital's internal control structure, and a report on its compliance with laws and regulations, both dated June 12, 1997.

Arthur Andersen LLP

New Orleans, Louisiana
June 12, 1997

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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 Hospital's Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
June 12, 1997

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS OF

TERREBONNE GENERAL MEDICAL CENTER AS AN ENTITY

To the Board of Directors of Terrebonne General Medical Center:

We have audited the financial statements of Terrebonne General Medical Center (the Hospital) as of and for the year ended March 31, 1997, and have issued our report thereon dated June 12, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (1994 Revision) 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.

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 general purpose 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 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 general purpose financial statements of the Hospital for the year ended March 31, 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 into operations, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE OF

TERREBONNE GENERAL MEDICAL CENTER AS AN ENTITY

To the Board of Directors of Terrebonne General Medical Center:

We have audited the financial statements of Terrebonne General Medical Center (the Hospital), as of and for the year ended March 31, 1997, and have issued our report thereon dated June 12, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (1994 Revision) 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 Hospital management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

This report is intended for the information of the Hospital's Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
June 12, 1997

The healthcare 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 healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Hospital leases a portion of its facilities to an unrelated party who provides psychiatric and chemical dependency treatment services. The lease agreement provides for a twenty year term, through 2006, with one renewal option for twenty years. The base rental rate, which was $150,000 per year at inception of the lease, is subject to an adjustment indexed to the Consumer Price Index every three years. The Hospital also provides other services to the lessee which are billed separately. Revenue from these services totaled approximately $1,198,000 in 1997 and $1,144,000 in 1996 which is included in other operating revenue in the accompanying statements of revenues and expenses.

As of March 31, 1997, the Hospital has budgeted approximately $34,000,000 for new equipment, building renovations and other acquisitions of which approximately $24,215,122 is expected to be funded in fiscal 1998.

Maturities of long-term debt and capital lease obligations, as of March 31, 1997 are as follows:

Fiscal Year	Revenue Bonds	Other	Total
1998	$ 1,165,000	$1,798,173	$ 2,963,173
1999	1,250,000	1,808,715	3,058,715
2000	1,340,000	1,816,726	3,156,726
2001	1,440,000	158,525	1,598,525
2002	1,545,000	41,010	1,586,010
2003-2015	31,185,000	-	31,185,000
	38,425,000	5,623,149	44,048,149
Less: Bond discount	455,021	-	(455,021)
	37,969,979	5,623,149	43,593,128
Less: Current maturities	1,165,000	1,798,173	2,963,173
	$36,804,979	$3,824,976	$40,629,955

Cash interest payments on all debt were approximately $3 million in 1997 and $3.1 million in 1996.

5. RETIREMENT PLAN:

The Hospital has a contributory money accumulation pension plan covering substantially all its full-time employees. Plan participants are required to contribute 2% of their monthly earnings to the pension plan. The Hospital contributes amounts equal to 5% of the participant's salary to the plan. Pension expense was approximately $980,000 in 1997 and $850,000 in 1996.

6. COMMITMENTS AND CONTINGENCIES:

The State of Louisiana enacted legislation in 1976 that created a statutory limit of $500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers. The constitutionality of the statutory limit has been, and continues to be, challenged, but these challenges have been unsuccessful to date. The Hospital participates in the State Insurance Fund, which provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim. The Hospital is self-insured with respect to the first $100,000 of each claim (up to an annual deductible of $1,000,000) and has excess insurance coverage with an annual aggregate limit ($30,000,000 in 1997). Malpractice suits involving claims of varying amounts have been filed against the Hospital by various claimants. The actions are in various stages of processing and some may ultimately be tried before juries. As any legal proceeding involves an element of risk, counsel is unable to precisely predict the ultimate outcome of the suits commenced. Additional claims may be asserted arising from services provided to patients during 1997 and prior years. Although the Hospital is unable to determine precisely the ultimate cost of the settlement of such claims, the Hospital's administration believes that the effect of such settlements, if any, will not be material to the financial position of the Hospital.

The Hospital has been named as a defendant in various legal actions arising from normal business activities in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

3. INVESTMENTS:

Investments at March 31, 1997 and 1996 consist of:

	1997			1996
	Cash Equivalents	U.S. Government Securities	Total	Total
Funds designated for specific purposes by Board	$13,827,413	$85,103,849	$ 98,931,261	$ 94,218,709
Funds held by Trustee	2,059,287	2,004,133	4,063,421	4,097,893
Total carrying value	$15,886,700	$87,107,982	$102,994,682	$ 98,316,602
Total market value	$15,886,700	$86,245,817	$102,132,517	$ 98,618,457

Louisiana state statutes authorize the Hospital to invest in obligations of the U. S. Treasury and other Federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions and certain investments with qualifying mutual or trust fund institutions. During the years ended March 31, 1997 and 1996, the Hospital invested primarily in money market funds and securities issued by the U.S. Treasury and other Federal agencies. The Hospital's investments in U. S. Government obligations are registered investments held by the Hospital or its agent in the Hospital's name.

Trustee-held investments consist primarily of funds invested through a trustee in qualifying investments as specified in the applicable revenue bond resolution. The Bond Agreement (see Note 4) requires the Hospital to maintain a bond reserve fund at specified levels which may be used by the trustee as necessary to fund payments of principal and interest to the bondholders. Through March 31, 1997, the Hospital has properly funded payments due for principal and interest on the bonds and, accordingly, the funds in the reserve fund have not been utilized for these purposes.

The majority of the Hospital's investments are classified as non-current and are carried at cost because the Hospital has the intent and ability to hold these securities until their maturity and thereby realize the carrying cost of these investments.

4. LONG-TERM DEBT AND LEASE OBLIGATIONS:

Long-term debt at March 31, 1997 consists primarily of the 1988 Bonds (see Note 1) which were issued as serial bonds, bearing interest at rates ranging from 6.6% to 7.5%, with semiannual interest payments due April 1 and October 1 of each year beginning April 1, 1989. The bonds mature in varying installments through 2015, and are subject to mandatory redemption through a sinking fund which requires the Hospital to fund total debt service ranging from approximately $3.8 to $4.0 million annually from 1998 through 2015. The 1988 Bonds are secured by a pledge of all accounts receivable and revenue, after operating expenses, derived by the Hospital. Under the terms of the Bond Agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the Trustee prior to actual payment to the bondholders.

During fiscal 1997, the Hospital purchased a 17% interest in a managed care organization for approximately $10,000,000; $5,000,000 of which is payable over 3 years without interest. The Hospital has also issued notes payable in connection with other acquisitions which bear interest ranging from 5.5% to 6.7%, and are payable in monthly installments of principal and interest through June, 2001.

Community Benefits

Services provided to the indigent and benefits provided to the broader community by the Hospital for the years ended March 31, 1997 and 1996 are summarized below:

	1997	1996
Benefits for the Indigent-		
Traditional charity care	$ 3,332,000	$ 2,575,000
Benefits for the Broader Community-		
Unpaid costs of government programs	5,364,000	4,256,000
Other community benefits	2,873,000	2,658,000
Total quantifiable benefits for the broader community	8,236,000	6,914,000
Total quantifiable community benefits	$11,569,000	$ 9,489,000

Benefits for the indigent represent charges for services provided to persons who cannot afford healthcare because of inadequate resources or who are uninsured.

Benefits for the broader community include the unpaid cost of treating Medicare and Medicaid beneficiaries in excess of government payments and services provided to other needy populations that may not qualify as indigent but that require special services and support. Examples include the cost of health promotion and education, an assistance program for the elderly, health clinics and screenings, and ground ambulance and air ambulance services, which benefit the broader community.

Community benefit expenses approximated 11% and 10% of the Hospital's total operating expenses for 1997 and 1996.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

Non-operating Income

Non-operating income includes income earned on board designated investments, gifts and bequests, and those assets whose use is limited under bond agreements.

2. DEPOSITS:

Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. Bank balances of deposits were entirely covered by insurance or collateral held by financial institutions in the Hospital's name at March 31, 1997 and 1996. At March 31, 1997, all of the Hospital's cash is categorized as Category 2 level of risk which includes cash collateralized with securities held by the pledging financial institution's trust department or its agent in the Hospital's name.