ARTHUR ANDERSEN LLP

99 JUL 1 AM : 22

TERREBONNE GENERAL MEDICAL CENTER

FINANCIAL STATEMENTS
AS OF MARCH 31, 1999 AND 1998
TOGETHER WITH AUDITORS' REPORT

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, 1999 and 1998, 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 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, as of March 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the Hospital is or will become Year 2000 compliant, that the Commission's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commission does business are or will be Year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the Hospital's compliance and internal control over financial reporting dated June 9, 1999.

Arthur Andersen LLP

New Orleans, Louisiana,
June 9, 1999

TERREBONNE GENERAL MEDICAL CENTER

BALANCE SHEETS

AS OF MARCH 31, 1999 AND 1998

ASSETS	1999	1998
CURRENT ASSETS:		
Cash (Note 2)	$ 5,530,640	$ 9,434,946
Patient accounts receivable, net of allowance for doubtful accounts of $9,924,000 in 1999 and $7,044,000 in 1998	17,975,867	11,505,565
Estimated receivables under government payment programs (Note 1)	5,538,937	1,644,898
Inventories (Note 1)	3,299,013	2,861,003
Prepaid expenses	885,473	823,431
Other current assets	1,336,540	1,464,704
Total current assets	34,566,470	27,734,547
PROPERTY, PLANT AND EQUIPMENT AT COST (Note 1):		
Land	12,302,345	11,037,384
Buildings	63,467,032	50,718,341
Equipment	74,166,245	67,677,164
Construction-in-progress	4,764,362	12,811,328
	154,699,984	142,244,217
Less- Accumulated depreciation	(72,818,507)	(66,116,139)
	81,881,477	76,128,078
BOARD-DESIGNATED INVESTMENTS AND OTHER ASSETS (Notes 1 and 3):		
Funds designated for plant replacement and expansion	103,854,526	105,335,566
Funds held by trustee	12,046,374	4,063,907
Other assets	10,963,348	11,484,922
	126,864,248	120,884,395
	$243,312,195	$224,747,020

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

TERREBONNE GENERAL MEDICAL CENTER

BALANCE SHEETS

AS OF MARCH 31, 1999 AND 1998

LIABILITIES AND FUND BALANCES	1999	1998
CURRENT LIABILITIES:		
Accounts payable	$ 4,992,081	$ 4,292,163
Accrued liabilities	9,957,314	10,390,215
Current maturities of long-term debt	2,121,755	2,582,487
Estimated payables under government payment programs (Note 1)	1,662,890	3,540,547
Total current liabilities	18,734,040	20,805,412
LONG-TERM DEBT (Note 3):		
Hospital revenue bonds, net of discount of $1,373,658 in 1999	52,376,342	36,010,000
Notes payable	199,534	2,016,261
	52,575,876	38,026,261
COMMITMENTS AND CONTINGENCIES (Note 5)	-	-
FUND BALANCES (Note 1):		
Designated for specific purposes	103,854,526	105,335,566
Non-designated	68,147,753	60,579,781
	172,002,279	165,915,347
	$243,312,195	$224,747,020

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, 1999 AND 1998

	1999	1998
NET REVENUE FROM SERVICES (Note 1)	$111,807,103	$114,127,428
OTHER REVENUE, net	8,006,154	7,757,826
Total net operating revenues	119,813,257	121,885,254
OPERATING EXPENSES:		
Salaries, wages and benefits (Note 4)	57,212,186	54,814,451
Supplies	26,579,286	23,690,654
Purchased services	9,225,844	10,242,384
Professional fees	3,936,074	4,282,655
Depreciation and amortization	9,786,331	8,499,492
Interest expense	2,957,234	2,901,721
Provision for bad debts	2,951,518	2,026,221
Other	5,817,209	4,723,768
Total operating expenses	118,465,682	111,181,346
INCOME FROM OPERATIONS	1,347,575	10,703,908
NON-OPERATING INCOME (Note 1):		
Investment income-		
Funds held by trustee	590,120	281,621
Other, including unrealized gain on investments	4,149,237	6,904,442
Total non-operating income	4,739,357	7,186,063
REVENUES IN EXCESS OF EXPENSES BEFORE EXTRAORDINARY LOSS	6,086,932	17,889,971
EXTRAORDINARY LOSS (Note 3)	-	1,831,414
REVENUES IN EXCESS OF EXPENSES	$ 6,086,932	$ 16,058,557

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, 1999 AND 1998

	Funds Designated for Specific Purposes	Non-designated Funds	Total
BALANCE, March 31, 1997	$ 98,069,098	$ 51,787,692	$149,856,790
Revenues in excess of expenses	8,418,394	7,640,163	16,058,557
Transfers of funds	(1,151,926)	1,151,926	-
BALANCE, March 31, 1998	105,335,566	60,579,781	165,915,347
Revenues in excess of expenses	5,906,938	179,994	6,086,932
Transfers of funds	(7,387,978)	7,387,978	-
BALANCE, March 31, 1999	$103,854,526	$ 68,147,753	$172,002,279

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

TERREBONNE GENERAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 1999 AND 1998

	1999	1998
OPERATING ACTIVITIES:		
Income from operations	$ 1,347,575	$ 10,703,908
Adjustments to reconcile revenues in excess of expenses to net cash provided by (used in) operating activities-		
Depreciation and amortization	9,786,331	8,499,492
Gain (loss) on sale of equipment	(11,900)	4,000
Increase in patients accounts receivable	(6,873,247)	(1,415,224)
Increase in government program receivables	(3,894,039)	(810,754)
(Increase) decrease in other current assets	128,164	(1,029,306)
Increase in inventory	(438,010)	(43,792)
Increase in prepaid expenses	(62,042)	(86,897)
Increase (decrease) in accounts payable	699,918	(771,254)
Increase (decrease) in accrued liabilities	(432,901)	1,370,537
Decrease in government program payables	(1,877,657)	(177,147)
Net cash provided by (used in) operating activities	(1,627,808)	16,243,563
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property, plant and equipment, net	(14,438,230)	(12,094,428)
NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net increase in investments and other long-term assets	(6,652,957)	(4,019,331)
Extraordinary loss on bond refinancing	-	(1,831,413)
Educational endowment and other	(732,499)	(670,619)
Net cash used in non-capital and related financing activities:	(7,385,456)	(6,521,363)
INVESTING ACTIVITIES:		
Principal payments on 1988 Hospital bonds	(37,260,000)	(1,165,000)
Increase in Hospital revenue bonds payable, net of discount	54,071,341	-
Principal payments on 1998 Hospital bonds	(830,000)	-
Principal payments under capital lease and other long-term debt obligations	(1,892,458)	(1,819,380)
Non-operating interest revenue, net	5,458,305	5,595,770
Net cash provided by investing activities	19,547,188	2,611,390
NET INCREASE (DECREASE) IN CASH	(3,904,306)	239,162
CASH AT BEGINNING OF YEAR	9,434,946	9,195,784
CASH AT END OF YEAR	$ 5,530,640	$ 9,434,946

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

TERREBONNE GENERAL MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1999 AND 1998

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.

To finance the construction of a 261-bed facility (license increased to 321 beds effective March, 1999) 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 3) to defease the 1985 Bonds. The Hospital issued $55.4 million of revenue refunding bonds in fiscal 1999 (the 1998 Bonds - see Note 3) to defease 1988 Bonds. As of March 31, 1999, all of the 1981 Parish sales tax bonds and the 1985 bonds have been retired or called for redemption, thus none of the bonds from these issues remain outstanding. The remaining 1988 Bonds outstanding were called for redemption in June, 1998.

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 market value (see Note 2). Investment income is recorded as non-operating revenue.

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." During 1999, the Hospital adopted GASB 31 and, based on the statement guidelines, recorded the effect of this adoption for all periods presented. The unrealized loss on investments as of March 31, 1997 of $862,164 was recorded as a reduction in fund balance at March 31, 1997. Unrealized gains, reflected in Other Non-Operating Income, were $2,260,912 in 1998 and $13,551 in 1999.

Other assets include the Hospital's equity investment in a managed care organization purchased in fiscal 1997 (see Note 3); deferred financing costs associated with the 1998 (see Note 3) at March 31, 1999; various investments held in connection with employee retirement plans; and $585,700 in certificates of deposit which are pledged as security under various insurance plans. Deferred financing costs associated with the 1988 Bonds were included in Other Assets on March 31, 1997, but were written off at March 31, 1998 in connection with the defeasance of these bonds (see Note 3).

Property, Plant and Equipment

Property is recorded at acquisition cost, including interest expense capitalized during construction. No interest was capitalized in 1999 or 1998. 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 gross patient revenues were derived from services furnished to Medicare and Medicaid program beneficiaries) and has agreements with other third-party payors 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 payor 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 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, 1999 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.

Community Benefits

Services provided to the indigent and benefits provided to the broader community by the Hospital for the years ended March 31, 1999 and 1998 are summarized below:

	1999	1998
Benefits for the Indigent-		
Traditional charity care	$ 3,700,000	$ 3,132,000
Benefits for the Broader Community-		
Unpaid costs of government programs	5,878,741	4,359,108
Other community benefits	1,850,542	2,910,396
Total quantifiable benefits for the broader community	7,729,283	7,269,504
Total quantifiable community benefits	$ 11,429,283	$ 10,401,504

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 10% and 9% of the Hospital's total operating expenses for 1999 and 1998, respectively.

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.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. INVESTMENTS:

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at March 31, 1999. Category (1) includes investments that are insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances at March 31, 1999 were as follows:

	Credit Risk Category			Carrying
	(1)	(2)	(3)	Amount
Securities Type:				
U.S. Government obligations	$ –	$62,171,108	$ –	$ 62,171,108
Cash and cash equivalents, certificates of deposit and accrued interest receivable	59,260,432	–	–	59,260,432
	$59,260,432	$62,171,108	$ –	$121,431,540

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, 1999 and 1998, 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 1988 Bond Agreement (see Note 3) 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, 1999, 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 because the Hospital has the intent and ability to hold these securities until their maturity.

3. LONG-TERM DEBT:

Long-term debt at March 31, 1998 consisted primarily of the 1988 Bonds which were term bonds, bearing interest at 7.5% which required the Hospital to fund total debt service ranging from approximately $3.8 to $4.0 million annually from 1998 through 2015. The 1988 Bonds were secured by a pledge of all accounts receivable and revenue, after operating expenses, derived by the Hospital. During fiscal year 1998, the Hospital began the process of issuing the Series 1998 Bonds to finance the acquisition and construction of improvements, renovations and extensions to the Hospital, refund the 1988 Bonds and pay for the costs of issuing the bonds. The 1988 Bonds were called for redemption in June, 1998. The 1998 bonds were issued as serial bonds bearing interest at rates ranging from 4.0% to 5.4%, with semiannual interest payments due April and October 1 of each year beginning April 1, 1999. The bonds mature in varying installments through 2028, and are subject to mandatory redemption through a sinking fund which requires the Hospital to fund debt service of approximately $3.7 million annually from 1999 to 2029. The 1998 Bonds are secured by a pledge and assignment of all revenues, 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. An extraordinary loss on the extinguishment of debt was recorded as the loss was probable and the amount was determined at March 31, 1998.

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 a note payable in connection with another acquisition which bears interest of 5.5% and is payable in monthly installments of principal and interest through June, 2001.

Maturities of long-term debt are as follows:

Fiscal Year	1998 Revenue Bonds	Other	Total
2000	$ 865,000	$1,256,755	$ 2,121,755
2001	905,000	158,525	1,063,525
2002	945,000	41,009	986,009
2003	990,000	-	990,000
2004	1,035,000	-	1,035,000
2005-2030	49,875,000	-	49,875,000
Total	$54,615,000	$1,456,289	$56,071,289

Cash interest payments on all debt were approximately $3.0 million in 1999 and $2.9 million in 1998.

4. RETIREMENT PLAN:

The Hospital has a contributory money accumulation pension plan covering substantially all of 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 $1,323,000 in 1999 and $1,290,000 in 1998.

5. 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 ($21,000,000 in 1999). 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 1999 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.

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. In recent years, 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 leased a portion of its facilities to an unrelated party who provided psychiatric and chemical dependency treatment services. The lease agreement provided for a twenty-year term, through 2006, with one renewal option for twenty years; however the lease was terminated on March 15, 1999. The Hospital also provided other services to the lessee, which were billed separately. Revenue from these services totaled approximately $843,000 in 1999 and $944,000 in 1998, which is included in other operating revenue in the accompanying statements of revenues and expenses.

As of March 31, 1999, the Hospital has budgeted approximately $55,412,000 for new equipment, building renovations and other acquisitions of which approximately $29,230,000 is expected to be funded in fiscal 2000.

SUPPLEMENTAL YEAR 2000 INFORMATION

The Hospital has instituted and maintained a comprehensive program to ensure that the Hospital will be Year 2000 ("Y2K") compliant. This due diligence effort is directed not only at internal systems but also at external systems such as outside product vendors. The Y2K program is structured in two independent yet integrated focal points : Life Safety/Medical Devices and Information Systems. Two committees, the Safety Committee and the Management of Information Committee, were vested with the authority and responsibility to perform due diligence in regard to Y2K issues. The Hospital began working on the year 2000 project in 1996 and the Hospital has replaced and upgraded systems as part of its normal capital replacement/upgrade program.

Awareness

General awareness of Year 2000 issues was brought to light in 1996 during an outside consulting engagement which provided an assessment of the Hospital's information technology and establishment of a strategic information plan. This engagement resulted in a decision to replace the Hospital's core information systems. The Hospital has been aware of the various Y2K risks and has budgeted funds for specific projects since 1996 and has budgeted additional non-specific emergency funds.

Assessment

The Life Safety Committee established an inventory of all date-sensitive medical devices. This list was prepared with the assistance of vendor information provided by Premier Inc., the Hospital's main group purchasing organization. The list indicates items which are Y2K compliant, items for which workaround is available, and items which are not compliant. The Hospital estimates that approximately 96% of its medical devices are Y2K compliant with the remaining 4% scheduled for change out or workaround prior to or at December 31, 1999.

Additionally , a list of all equipment in the Hospital was sorted by department and each Department Manager has provided an analysis of whether the equipment is compliant. This process was redundant in the case of information systems and biomedical equipment, however, it was decided by formal policy to delegate to each Department Manager the responsibility of going through each item in their respective department and signing off as to whether a Y2K issue exists. The result of the inventory report indicates that approximately 97% of the Hospital's equipment is either not affected or Y2K compliant with the remaining 3% has been scheduled for replacement or workaround.

Remediation

The Hospital generally purchases software packages rather than developing in-house software code. Therefore, the Hospital is generally not required to actually remediate (change code), but rather to install and test versions of vendors' software packages that are Y2K-ready. This process is part of detail planning and implementation and has been under way since 1996. The Hospital's core information systems were converted on April 1, 1998 and believed to be Y2K compliant now. In addition, certain ancillary systems were approved to be replaced in the 1998 budget and these systems are now either on line or scheduled for go live by September, 1999. The Hospital's Management of Information Committee has provided the leadership in the replacement of these systems. This committee has been meeting biweekly since 1997 to discuss information management issues, including Y2K progress.

Since early 1998, all purchase orders, bid specifications, request for proposals and contracts, regardless of whether the purchase related specifically to fixing a Y2K problem, have required warranty and representations from the vendor assuring the equipment or device is Y2K ready. As noted previously, many of the Hospital's Y2K issues have been addressed through routine replacements and upgrades included in the regular capital budget replacement process.

For each affected medical device, the Hospital has been in the process of either purchasing upgrades or developing workarounds. Resources employed to perform remediations are drawn either from the Hospital's own biomedical staff, specified departmental staff, and/or company biomedical representatives. All remediations are specifically documented and logged.

Validation/ Testing

Medical devices are very diverse in nature and the methods employed to validate them are just as varied. All testing and validation procedures are both documented and logged. In rare cases, validation testing has been identified by the manufacturer as being both prohibitive and counterproductive. In such cases, the Hospital has complied with the manufacturer's recommendations and, as a substitute, has obtained explicit documentation explaining the technical issues at hand and containing a formal statement of responsibility from the manufacturers.

Due to the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter, and management cannot assure that the Hospital or those with whom the Hospital conducts business will be fully compliance.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Terrebonne General Medical Center (the Hospital), as of and for the year ended March 31, 1999, and have issued our report thereon dated June 9, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Commissioners, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
June 9, 1999

ARTHUR ANDERSEN

June 16, 1999

Arthur Andersen LLP

Suite 4500
201 St Charles Avenue
New Orleans LA 70170 4500
504 581 5454

Mr. Leonard Doucet
Chief Financial Officer
Terrebonne General Medical Center
936 East Main Street
Houma, LA 70360

Dear Leonard:

As part of the audit of the financial statements of Terrebonne General Medical Center for the year ended March 31, 1999, we considered the Hospital's internal control structure in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. While our purpose was not to provide assurances on the internal control structure, we noted the matters listed below which we want to discuss with you.

Monitoring of MSO Receivable Allowance

The Hospital provides billing and collection services for various physician practices and receives fees based on a percentage of the amounts collected by Hospital personnel for these practices. Fee revenue is calculated and accrued based on the amount billed less any contractual and bad debt reserves which are based on collection history. We noted that the estimated reserves on these receivables recorded at March 31, 1999 were understated although overall reserves were adequate. Management informed us that a review and reconciliation is performed periodically to update reserves based on recent collection statistics. Because of the rapid changes being experienced in this area, however, we recommend that the Hospital perform this review and reconciliation more frequently, such as monthly or quarterly, to ensure that the reserve percentage used to calculate the receivable is based on current collection data and the appropriate Hospital reserves for uncollectables are maintained.

Management Response

Management agrees with and will implement this suggestion.

Travel and Entertainment

We noted several minor exceptions from established Hospital policy in our testing of travel and entertainment procedures. These issues, which did not constitute violations of law, were communicated to management in a separate report.

Management Response

Management has reviewed this report and is taking appropriate action to follow up on these items.

Information Systems

Our review of the Hospital's information system functions revealed several areas in which the Hospital could enhance the efficiency or effectiveness of its information systems functions. These observations were communicated to management in a separate report to assist the Hospital in its efforts to improve efficiency and effectiveness in these areas.

Management Response

Management has reviewed this report and is taking appropriate action to follow up on these items.

We appreciate the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

Very truly yours,

Toby Summ

Toby Summerour