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Management's Discussion and Analysis and Basic Financial Statements

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center)

Years ended March 31, 2004 and 2003, with Report of Independent Auditors

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

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Years ended March 31, 2004 and 2003

Contents

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center)

Management's Discussion and Analysis

This section of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) ("Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on March 31, 2004. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's assets increased by approximately $27,729,000, or approximately 11%, primarily as a result of the issuance of $25,000,000 of 2003 Revenue Bonds and $3,511,000 of revenues in excess of expenses for the current year. Cash from the bond issue is invested until funds are requested.

- During the year, the Hospital's total operating revenues increased $2,864,000, or 2%, to $144,469,000 from the prior year while expenses increased $11,118,000, or 8%, to $143,402,000. The Hospital had a gain from operations of $1,067,000, which is 1% of total operating revenue and does not compare favorably to the prior fiscal year's income from operations of $9,321,000, or 7% of revenue. Expenses rose at a rate higher than the increase in net operating revenue.

- There were no intergovernmental transfer funds received during the year, compared to approximately $563,000 in the prior year, to offset Medicaid contractual adjustments. Premier ownership distribution for the year was $348,000, a decrease from the prior year, which was approximately $520,000.

- During the fiscal year, the Hospital made the following significant capital acquisitions for a total of approximately $20,533,000:

    - Various parking projects
    - Completion of new office building for Cardiovascular Institute of the South ("CIS")
    - Completion of new short stay entrance and construction
    - Completion of the east wing, radiology renovations, catherization lab expansion project, and second floor including laboratory
    - Completion of the building energy management system
    - Completion of PACS and physician access system
    - Replacement of telemetry monitors

Financial Highlights (continued)

- Completion of various Information Technology projects
- Replacement of various equipment for beds, radiology equipment, and general capital improvements
- Start up of Women's Center project

The source of the funding for these projects was derived from operations and bond funds restricted for capital acquisitions.

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board ("GASB") accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the reporting period's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Hospital

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Net Assets

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	March 31 2004	March 31 2003	Dollar Change	Percentage Change
	(In Thousands)			
Total current assets	**$ 30,897**	$ 32,676	$ (1,779)	(5)%
Capital assets, net	**129,930**	122,251	7,679	6%
Other assets, including board-designated investments	**127,749**	105,920	21,829	21%
Total assets	**$ 288,576**	$ 260,847	$ 27,729	11%
Current liabilities	**$ 17,079**	$ 17,514	$ (435)	(2)%
Long-term debt outstanding and other long-term liabilities	**76,944**	52,291	24,653	47%
Total liabilities	**94,023**	69,805	24,218	35%
Invested in capital assets, net of related debt	**77,508**	71,424	6,084	9%
Restricted net assets	**3,064**	2,349	715	30%
Unrestricted net assets	**113,981**	117,269	(3,288)	(3)%
Total liabilities and net assets	**$ 288,576**	$ 260,847	$ 27,729	11%

As can be seen in Table 1, total assets increased by $27,729,000 to $288,576,000 at March 31, 2004, up from $260,847,000 at March 31, 2003. The change in total net assets results primarily from the issuance of new debt and increases in nonoperating interest earnings and operating gains from the current year.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended March 31, 2004 and 2003.

TABLE 2
Statements of Revenue, Expenses, and Changes in Net Assets

	Year ended March 31 2004	2003	Dollar Change	Percentage Change
	(In Thousands)			
Net inpatient service revenue	**$ 90,126**	$ 92,155	$ (2,029)	(2)%
Net outpatient service revenue	**50,076**	44,919	5,157	11%
Net patient service revenue	**140,202**	137,074	3,128	2%
Other revenue, net	**4,267**	4,531	(264)	(6)%
Total operating revenue	**144,469**	141,605	2,864	2%
Salaries and employee benefits	**74,926**	69,286	5,640	8%
Supplies and materials	**31,117**	30,229	888	3%
Purchased services	**11,986**	11,421	565	5%
Professional fees	**2,442**	2,719	(277)	(10)%
Other operating	**6,760**	5,540	1,220	22%
Depreciation and amortization	**12,601**	10,369	2,232	22%
Interest expense	**3,570**	2,720	850	31%
Total operating expenses	**143,402**	132,284	11,118	8%
Income from operations	**1,067**	9,321	(8,524)	(89)%
Nonoperating income	**2,444**	6,788	(4,344)	(64)%
Revenue in excess of expenses	**3,511**	16,109	(12,598)	(78)%
Net assets at beginning of year	**191,042**	174,933	16,109	9%
Net assets at end of year	**$ 194,553**	$ 191,042	$ 3,511	2%

Sources of Revenue

Operating Revenue

During fiscal year 2004, the Hospital derived the majority of its total revenue from patient revenues. Patient revenues includes revenues from the Medicare and Medicaid programs and patients, or their third-party carriers, who pay for care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party carriers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance. Other revenue represents earnings from meals, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2004 and 2003.

TABLE 3
Payor Mix by Percentage

	Year ended March 31	
	2004	**2003**
Medicare	**52%**	51%
Managed care	**30**	32
Medicaid	**12**	11
Self-pay and other	**6**	6
Total patient revenues	**100%**	100%

Nonoperating Income

The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned $3,756,000 during fiscal year 2004.

These earnings were reduced by a $765,000 decrease in unrealized market value loss of investments due to changes in the interest rates and market conditions of the economy.

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2004 and 2003:

Overall activity at the Hospital, as measured by patient discharges, increased by less than 3% to approximately 13,865 discharges in 2004 from 13,532 discharges in 2003. Patient days decreased by less than 1% from the prior year to 64,510 in 2004 from 64,549 in 2003. As a result, the average length of stay for the Hospital remained relatively unchanged at 4.65 days in 2004 compared to 4.77 days in 2003.

Gross outpatient revenue increased in fiscal year 2004 due to an increase in volume and an across the board rate increase that occurred during the fiscal year. Outpatient visits increased from 2003 levels by 9%. Emergency visits decreased compared to the prior year by 3%. Net patient service revenue increased $3,128,000 or 2% in 2004 primarily as a result of increases in the Hospital's volumes. The increase in volumes was offset by changes in the payor mix from managed care patients to Medicare and Medicaid patients. The insurance coverage for patients receiving services shifted away from employer and individual coverage to more state and federal sponsored programs that typically have lower payment rates.

During fiscal year 2004, management continued to focus resources on reducing the unbilled and billed balances in patient accounts receivable. As a result, days in accounts receivable decreased from 55 days to 51 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of $1,680,000 were forgone during 2004, compared to $959,000 in 2003, or a 75% increase over the prior fiscal year. Changes made to state charity hospital systems have resulted in increased indigent services being provided to the public.

Provision for bad debts increased by $2,055,000 or 25% compared to the prior year. This increase occurred due to the rate increase and house-wide clean up of accounts receivables and dissolution of physician accounts receivables that was initiated during the year.

Salaries and employee benefits increased by $5,640,000 from the prior year as a result of market adjustments, new full-time equivalents (FTEs), and merit increases during the year. Health insurance claims also increased during the year. Salaries and employee benefits were 53% of net patient service revenue in 2004 and 51% in 2003.

The cost of supplies and materials and purchased services increased by $1,453,000, or 3%, for the 2004 fiscal year. This increase occurred due to volume increases, general inflation in medical supplies, and an overall increase in the cost of drugs. Professional fees declined by $277,000 due to certain contract renegotiations resulting in a substantial cost savings to the Hospital.

Depreciation and amortization, and interest expenses both increased over prior year. Depreciation increased by $2,232,000 or 22% due to major projects being completed and depreciated over their useful life. Interest expense also increased due to the increase in debt from the 2003 Bond Issuance.

Total operating expenses increased by $11,118,000 or 8% for the year ended March 31, 2004, due to increases in volume and health care inflation, salaries, and benefits increased as FTEs rose by 59 or 4% during 2004.

Nonoperating income consists of interest earnings on funds designated by the board of commissioners for expansion and funds held by trustee under bond resolution. The net unrealized gain (loss) on market adjustments on these investments is also included in this amount. Nonoperating income decreased from the prior year due to the fact that there was a lower yield in the current year than in the previous year.

Capital Assets

During fiscal year 2004, the Hospital invested in a broad range of capital assets included in Table 4 below.

TABLE 4
Capital Assets

	March 31 2004	March 31 2003	Dollar Change	Total Percent Change
	(In Thousands)			
Land and land improvements	**$ 19,067**	$ 17,654	$ 1,413	8%
Building and fixed equipment	**107,252**	84,627	22,625	27%
Equipment	**117,808**	107,356	10,452	10%
Subtotal	**244,127**	209,637	34,490	16%
Less accumulated depreciation and amortization	**118,454**	107,012	11,442	11%
Construction-in-progress	**4,257**	19,626	(15,369)	(78)%
Net property, plant, and equipment	**$129,930**	$122,251	$ 7,679	6%

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities and completed new space to accommodate ancillary services such as emergency services, laboratory, and catherization labs. The Hospital also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

In Table 5, the Hospital's fiscal year 2005 capital budget projects spending up to $7,382,000 for capital projects, of which 33% is for replacement or regulatory/ maintenance items. These projects will be financed from operations. This spending does not include the master facility plan projects that will be funded from operations and designated investments. More information about the Hospital's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2005 Capital Budget
(In Thousands)

Replacement equipment	$	2,409
Construction/renovation		1,571
New technology		1,211
Revenue growth, regulatory, cost reduction, and contingency		2,191
Total	$	7,382

This capital listing does not include the purchase of items on the master facility plan.

Long-Term Debt

In August 2003, the Hospital issued $25,000,000 in Additional Revenue Bonds Series 2003, in order to construct an 85,000 square foot Women's Center.

At year-end, the Hospital had $75,008,000 in short-term and long-term debt, net of a discount of $902,000. The debt balance has increased by $24,101,000 in fiscal year 2004, which is the amount of the new debt less the amount of principal payments on previous outstanding debt for the fiscal year. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents 26% of the Hospital's total assets at March 31, 2004.

Contacting the Hospital's Financial Manager

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

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of
Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

We have audited the accompanying balance sheets of Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (Hospital), as of March 31, 2004 and 2003, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2004, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

June 4, 2004

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Balance Sheets

	March 31	
	2004	**2003**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,894**	$ 8,594
Patient accounts receivable, net of allowance for uncollectible accounts of $16,284,000 in 2004 and $15,908,000 in 2003	**13,469**	13,464
Estimated net receivables under government programs	**3,800**	2,910
Inventories	**2,744**	2,968
Prepaid expenses	**1,422**	1,370
Other current assets	**1,540**	1,021
Funds held by trustee under bond resolution	**3,028**	2,349
Total current assets	**30,897**	32,676
Property, plant, and equipment:		
Land and land improvements	**19,067**	17,654
Buildings and fixed equipment	**107,252**	84,627
Equipment	**117,808**	107,356
Construction-in-progress	**4,257**	19,626
	248,384	229,263
Less accumulated depreciation and amortization	**118,454**	107,012
	129,930	122,251
Investments and accrued interest:		
Funds designated by board of commissioners for plant replacement and expansion, including accrued interest of $173,000 in 2004 and $294,000 in 2003	**98,654**	101,246
Funds held by trustee under bond resolution, including accrued interest of $20,000 in 2004, less current portion	**22,622**	–
Other assets	**6,473**	4,674
Total assets	**$ 288,576**	$ 260,847

	March 31	
	2004	**2003**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 5,426**	$ 7,074
Accrued liabilities	**205**	154
Accrued interest payable	**2,231**	1,359
Salaries and employee benefit liabilities	**3,696**	3,262
Self-insurance reserves	**4,486**	4,675
Current maturities of long-term debt	**1,035**	990
Total current liabilities	**17,079**	17,514
Long-term debt:		
Hospital revenue bonds, less current portion (net of discount of $902,000 in 2004 and $1,073,000 in 2003)	**73,973**	49,837
Other accrued liabilities, less current portion	**2,971**	2,454
	76,944	52,291
Total liabilities	**94,023**	69,805
Net assets:		
Invested in capital assets, net of related debt	**77,508**	71,424
Restricted net assets	**3,064**	2,349
Unrestricted net assets	**113,981**	117,269
Total net assets	**194,553**	191,042
Total liabilities and net assets	**$ 288,576**	$ 260,847

See accompanying notes.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Statements of Revenue, Expenses, and Changes in Net Assets

	Year ended March 31	
	2004	**2003**
	(In Thousands)	
Net patient service revenue	**$ 140,202**	$ 137,074
Other revenue, net	**4,267**	4,531
Total revenue	**144,469**	141,605
Expenses:		
Salaries and employee benefits	**74,926**	69,286
Supplies and materials	**31,117**	30,229
Purchased services	**11,986**	11,421
Professional fees	**2,442**	2,719
Other operating	**6,760**	5,540
Depreciation and amortization	**12,601**	10,369
Interest expense	**3,570**	2,720
Total expenses	**143,402**	132,284
Income from operations	**1,067**	9,321
Nonoperating income (loss):		
Investment income:		
Funds held by trustee under bond resolution	**82**	10
Other, including unrealized gain/loss on investments	**2,909**	7,249
Other expenses	**(547)**	(471)
Total nonoperating income	**2,444**	6,788
Revenue in excess of expenses	**3,511**	16,109
Net assets at beginning of year	**191,042**	174,933
Net assets at end of year	**$ 194,553**	$ 191,042

See accompanying notes.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Statements of Cash Flows

	Year ended March 31	
	2004	**2003**
	(In Thousands)	
Operating activities		
Revenue collected	**$ 143,574**	$ 145,592
Cash payments to employees and for employee-related costs	**(74,492)**	(68,840)
Cash payments for operating expenses	**(55,961)**	(51,185)
Cash payments for other expenses	**(547)**	(471)
Net cash provided by operating activities	**12,574**	25,096
Capital and related financing activities		
Purchases of property, plant, and equipment, net	**(20,533)**	(28,852)
Principal payments on bonds	**(889)**	(945)
Proceeds from sale of fixed assets	**563**	11
Interest payments on debt	**(2,698)**	(2,742)
Proceeds from bond issuance	**25,000**	–
Net cash provided by (used in) capital and related financing activities	**1,443**	(32,528)
Investing activities		
Interest income received on investments	**2,991**	3,916
Net change in investments	**(20,708)**	5,043
Net cash provided by (used in) investing activities	**(17,717)**	8,959
Net change in cash and cash equivalents	**(3,700)**	1,527
Cash and cash equivalents at beginning of year	**8,594**	7,067
Cash and cash equivalents at end of year	**$ 4,894**	$ 8,594

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Statements of Cash Flows (continued)

	Year ended March 31 2004	2003
	(In Thousands)	
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	**$ 1,067**	$ 9,321
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	**12,601**	10,369
Interest expense	**3,570**	2,720
(Gain) loss on sale of equipment	**(191)**	11
Other	**(547)**	(471)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(5)**	3,242
Government program receivables	**(890)**	(1,472)
Other assets	**(2,195)**	209
Accounts payable and accrued liabilities	**(836)**	1,167
Net cash provided by operating activities	**$ 12,574**	$ 25,096

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana is a political subdivision of the state of Louisiana which owns and operates Terrebonne General Medical Center (the "Hospital"). The Hospital is a 301-bed acute care facility providing comprehensive medical services to southeast Louisiana.

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 pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and 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 of commissioners' designation or under trust agreements.

Inventories

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

Investments

Investments are stated at market value. Investments and the associated accrued interest are classified as noncurrent due to these funds being designated by the board of commissioners for expenditure in the acquisition or construction of property, plant, or equipment.

1. Summary of Significant Accounting Policies (continued)

Investment income is reported as nonoperating income. Unrealized gains (losses), reflected in other nonoperating income, were $(765,000) in 2004 and $3,332,000 in 2003.

Other Assets

Other assets include deferred financing costs, various investments held in connection with employee retirement plans, investment in purchasing group, and certificates of deposit which are pledged as security under various insurance plans. The deferred financing costs are amortized over the life of the bonds using the interest method.

Property, Plant, and Equipment

Property is recorded at acquisition cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets, which range from 5 to 25 years. Depreciation expense was $12,483,000 and $10,257,000 for the years ended March 31, 2004 and 2003, respectively.

Net Assets

The Hospital classifies net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These components are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets. Additionally, approximately $22,586,000 of unspent proceeds from the 2003 bond offering remains at March 31, 2004. This portion of the debt has been excluded from this component of net assets.

- Restricted – This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies (continued)

- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in income or loss from operations; all peripheral transactions are reported as a component of nonoperating income.

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

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. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Hospital 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.

Reclassification

Certain reclassifications have been made to the 2003 balances to conform to the current-year presentation.

Use of Estimates

The preparation of financial statements 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, 2004 and 2003. Category (1) includes investments that are insured, or registered in the Hospital's name, or 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 were as follows:

2. Investments (continued)

	Credit Risk Category (1)	(2)	(3)	Carrying Amount
	(In Thousands)			
2004				
Securities type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	**$ –**	**$108,443**	**$ –**	**$ 108,443**
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	**20,755**	**–**	**–**	**20,755**
	$ 20,755	**$108,443**	**$ –**	**$ 129,198**

	Credit Risk Category (1)	(2)	(3)	Carrying Amount
	(In Thousands)			
2003				
Securities type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	$ –	$ 84,126	$ –	$ 84,126
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	28,061	2	–	28,063
	$ 28,061	$ 84,128	$ –	$ 112,189

Louisiana statutes restrict the types of investments available to the Hospital. During the years ended March 31, 2004 and 2003, the Hospital believes it has complied with these limitations and invested primarily in money market funds and securities issued by the U.S. Treasury and other securities backed by the full faith and credit of the United States Government. The Hospital's investments in U.S. Government obligations are registered investments held by the Hospital or its agent in the Hospital's name.

2. Investments (continued)

Trustee-held investments consist primarily of funds invested through a trustee in qualifying investments as specified in the applicable revenue bond resolution. The 1998 and 2003 bond agreements require the Hospital to maintain a Principal and Interest Fund at specified levels which is to be used by the trustee to fund payments of principal and interest to the bondholders. Should the Hospital violate certain covenants, the Hospital may be required to deposit investments in other funds. The 2003 bond agreement requires the Hospital to maintain certain proceeds in a Construction Fund until such time as qualifying expenditures have been made. The following table summarizes these amounts in these funds.

	March 31	
	2004	**2003**
1998 Bonds:		
Principal Fund	**$ 1,035**	$ 990
Interest Fund	**1,336**	1,359
2003 Bonds:		
Interest Fund	**693**	–
Construction Fund	**22,586**	–
	$25,650	$ 2,349

3. Property, Plant, and Equipment

The Hospital's investment in property, plant and equipment consisted of the following as of March 31, 2004:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	(In Thousands)			
Land and land improvements	$ 17,654	$ 1,504	$ 91	$ 19,067
Buildings and fixed equipment	84,627	23,031	406	107,252
Equipment	107,356	11,368	916	117,808
Construction in progress	19,626	17,170	32,539	4,257
	229,263	53,073	33,952	248,384
Less accumulated depreciation	107,012	12,483	1,041	118,454
Property, plant, and equipment, net	$ 122,251	$ 40,590	$32,911	$ 129,930

4. Debt

The following table summarizes the Hospital's outstanding debt:

	March 31 2004	March 31 2003
	(In Thousands)	
Hospital Revenue Bonds, Series 2003, 2.0% to 5.25%	**$ 25,000**	$ –
Hospital Revenue Bonds, Series 1998, 4.5% to 5.4%	**50,910**	51,900
	75,910	51,900
Less unamortized discount	**902**	1,073
	75,008	50,827
Less amounts due within one year	**1,035**	990
Long-term portion of debt	**$ 73,973**	$ 49,837

4. Debt (continued)

The 1998 bonds are serial bonds with semiannual interest payments due April 1 and October 1 each year. The bonds mature in varying installments through 2029 and are subject to mandatory redemption through a sinking fund that requires the Hospital to fund debt service of approximately $3,700,000 annually through the year 2028. The bonds are secured by a pledge and assignment of all 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.

The 2003 bonds are serial bonds with semiannual interest payments due April 1 and October 1 each year. The bonds mature in varying installments through 2034 and are subject to extraordinary special redemption through a sinking fund that requires the Hospital to fund debt service of approximately $5,000,000 annually through the year 2034. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the Hospital. The bonds are also secured by a mortgage and security agreement of the land on which the Hospital is located. 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 the actual payment to the bondholders.

4. Debt (continued)

The scheduled maturities of the long-term debt are as follows (in thousands):

	Principal	Interest
2005	$ 1,035	$ 4,182
2006	1,155	3,912
2007	1,210	3,858
2008	1,270	3,800
2009	1,330	3,740
2010 – 2014	7,705	17,634
2015 – 2019	9,970	15,368
2020 – 2024	13,020	12,319
2025 – 2029	17,020	8,318
2030 – 2034	22,195	3,151
Total	$ 75,910	$ 76,282

5. Third-Party Payor Arrangements

The Hospital receives payment from federal and state agencies (under Medicare and Medicaid programs) for services rendered to program beneficiaries. A summary of the percentage of the Hospital's net patient revenue related to patients participating in the Medicare and Medicaid programs is as follows:

	2004	2003
Medicare	**44%**	41%
Medicaid	**5%**	6%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be

5. Third-Party Payor Arrangements (continued)

subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Regulations in effect require annual retroactive settlements for costs reimbursed under these federal programs based upon cost reports filed by the Hospital. The difference between the estimate of these settlements and the final determination of amounts earned under cost-reimbursement and prospective payment activities is subject to review by the appropriate governmental authority or its agents. Estimated settlements through March 31, 1998, for both the Medicare and the Medicaid programs have been settled by program representatives. The settlement of these cost reports provides the Hospital with updated information that serves as the basis to adjust estimated settlement amounts. Management believes that adequate provision has been made for adjustments that may result from the final determination of amounts earned under these programs.

6. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	Year ended March 31	
	2004	**2003**
	(In Thousands)	
Total gross patient service charges, excluding charity care	**$ 341,964**	$ 316,456
Contractual and other allowances:		
Medicare	**115,404**	102,815
Medicaid	**33,261**	26,344
Managed care organizations	**40,081**	37,718
Other	**3,269**	4,251
Provision for bad debts	**9,747**	8,254
Total contractual and other allowances	**201,762**	179,382
Net patient service revenue	**$ 140,202**	$ 137,074

6. Net Patient Service Revenue (continued)

During 2003, the Hospital received approximately $562,000 from the state of Louisiana as reimbursement for indigent care previously provided.

7. Retirement Plan

The Hospital has a contributory money accumulation pension plan covering all of its full-time employees. Plan participants may contribute to the pension plan. The Hospital contributes amounts from 4 to 5% of each participant's salary to the plan depending upon length of service. Pension expense was approximately $2,106,000 in 2004 and $1,817,000 in 2003.

8. Commitments and Contingencies

The Hospital participates in the State of Louisiana Patients' Compensation Fund (the "Fund") for professional liability coverage. As a participant, the Hospital receives professional liability coverage on a claims-made basis for claims up to the $500,000 statutory limitation per occurrence. However, the Hospital is self-insured with respect to the first $100,000 of each claim.

The Hospital is self-insured for workers' compensation up to $350,000 per claim and for employee health insurance up to $150,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

The Hospital purchased commercial insurance that provides coverage for professional liability, workers' compensation, and employee health claims in excess of the self-insured limits.

8. Commitments and Contingencies (continued)

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2004 and 2003 were as follows (in thousands):

Year Ended March 31	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	**$ 4,675**	**$ 8,100**	**$ 8,289**	**$ 4,486**
2003	$ 5,020	$ 8,773	$ 9,118	$ 4,675

Insurance coverage for other loss and liability exposures is maintained at levels considered appropriate by management.

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.

As of March 31, 2004, the Hospital has committed approximately $13,000,000 for new equipment, building renovations, and other acquisitions, all of which is expected to be funded in fiscal 2005.

9. Community Benefits (Unaudited)

Services provided to the indigent and benefits provided to the broader community by the Hospital for the years ended March 31, 2004 and 2003, are summarized below:

	2004	2003
	(In Thousands)	
Benefits for the indigent:		
Traditional charity care	**$ 1,680**	$ 959
Benefits for the broader community:		
Unpaid costs of government programs	**16,844**	13,598
Other community benefits	**1,909**	1,652
Total quantifiable benefits for the broader community	**18,753**	15,250
Total quantifiable community benefits	**$ 20,433**	$ 16,209

The amount reported as benefits for the indigent represents billings for services provided based on the Hospital's charge rates to persons who cannot afford health care because of unavailable 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.

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The Board of Commissioners
Hospital Service District No. 1 of
Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

In planning and performing our audit of the financial statements of Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the "Medical Center") for the year ended March 31, 2004, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. The following observations, which resulted from our consideration of internal control, are submitted for your consideration relative to significant estimates and management judgments.

Inventory Count Procedures

In connection with the financial statement close process, the Medical Center counts supplies on hand as a step to ensure the recorded balance of this inventory is accurate. During our audit, we noted that the procedures used by the Medical Center staff were not uniform. Additionally, we noted that there were no documented, formal procedures to be followed.

Management should consider developing and implementing a formal inventory control and count policy. This will foster consistency in approach to this component of the financial statement close process.

This letter is intended solely for the information and use of the board of commissioners, management, the bond trustee, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

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

Ernst + Young LLP

June 4, 2004

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Report of Independent Auditors on Compliance with Bond Resolution

The Board of Commissioners
Hospital Service District No. 1 of
Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

We have audited the financial statements of Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the "Hospital"), as of and for the year ended March 31, 2004, and have issued our report thereon dated June 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

We have read the resolutions of the board of commissioners of the Hospital adopted February 17, 2003, and August 6, 2003, which established the agreement between the revenue bond purchaser and the Hospital. These resolutions contain covenants of the Hospital relative to the maintenance of certain financial ratios and other financial conditions.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of the resolutions insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the board of commissioners, management, the bond trustee, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

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June 4, 2004

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Report of Independent Auditors on Compliance with Bond Resolution

The Board of Commissioners
Hospital Service District No. 1 of
Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

We have audited the financial statements of Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the "Hospital"), as of and for the year ended March 31, 2004, and have issued our report thereon dated June 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

We have read the resolution of the board of commissioners of the Hospital adopted April 29, 1998, which established the agreement between the revenue and refunding bond purchaser and the Hospital. This resolution contains covenants of the Hospital relative to the maintenance of certain financial ratios and other financial conditions.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of the resolution insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the board of commissioners, management, the bond trustee, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

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June 4, 2004

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

The Board of Commissioners
Hospital Service District No. 1 of
Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

We have audited the financial statements of Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the "Hospital"), as of and for the year ended March 31, 2004, and have issued our report thereon dated June 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 herein under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 and use of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Ernst + Young LLP

June 4, 2004