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Thibodaux Regional Medical Center

September 30, 1998

Audited Financial Statements

Report on Compliance and on Internal Control Over Financial Reporting

Report on Compliance with Bond Resolution

Management Letter

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAY 05 1999

Financial Statements

Thibodaux Regional Medical Center

*Years ended September 30, 1998 and 1997
with Report of Independent Auditors*

Thibodaux Regional Medical Center

Financial Statements

Years ended September 30, 1998 and 1997

Contents

Report of Independent Auditors 1

Audited Financial Statements

Balance Sheets 3

Statements of Revenues, Expenses and Fund Balance 5

Statements of Cash Flows..... 6

Notes to Financial Statements..... 7

Required Year 2000 Supplementary Information 18

Report of Independent Auditors

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

We have audited the accompanying balance sheets of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital), as of September 30, 1998 and 1997, and the related statements of revenues, expenses and fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to 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 Thibodaux Regional Medical Center at September 30, 1998 and 1997, 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 on page 18 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 No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Hospital is or will become year 2000 compliant, that the Hospital's year

2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have issued our report dated October 30, 1998 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

Ernst + Young LLP

October 30, 1998

Thibodaux Regional Medical Center

Balance Sheets

	September 30	
	1998	1997
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 8)</i>	\$ 4,074,768	\$ 4,706,333
Investments <i>(Note 8)</i>	5,124,239	4,387,529
Patient accounts receivable, less allowances for uncollectible accounts of \$7,592,000 in 1998 and \$6,121,000 in 1997	10,618,888	9,414,865
Assets whose use is limited and required for current liabilities <i>(Notes 3, 5 and 8)</i>	1,642,747	1,627,244
Interest and other receivables	220,192	54,884
Inventories	907,428	869,888
Prepaid expenses	359,093	382,104
Total current assets	22,947,355	21,442,847
Assets whose use is limited, less amounts required for current liabilities <i>(Notes 5 and 8)</i>	46,858,335	36,424,722
Unamortized debt issuance costs	308,656	328,146
Other assets	276,197	412,448
Property, plant and equipment <i>(Notes 3 and 4)</i> :		
Land and land improvements	2,346,203	2,141,646
Buildings and fixed equipment	34,765,231	34,731,155
Equipment	27,852,564	26,895,871
Accumulated depreciation and amortization	(30,462,190)	(26,809,598)
Construction in progress	801,547	244,361
	35,303,355	37,203,435
	\$ 105,693,898	\$ 95,811,598

	September 30	
	1998	1997
Liabilities and fund balance		
Current liabilities:		
Trade accounts payable	\$ 1,996,439	\$ 2,168,703
Employee compensation	2,079,846	1,901,681
Amounts due to contractual third-party payors <i>(Note 2)</i>	1,724,253	1,194,883
Payables related to assets whose use is limited <i>(Note 3)</i> :		
Construction accounts payable	669,572	650,053
Accrued interest	563,175	572,191
Amounts due within one year on long-term debt	410,000	405,000
Amounts due within one year on capitalized lease obligations <i>(Note 4)</i>	242,870	312,903
Total current liabilities	<u>7,686,155</u>	<u>7,205,414</u>
Long-term debt, less amounts due within one year <i>(Note 3)</i>	18,342,870	18,726,530
Capitalized lease obligations, less amounts due within one year <i>(Note 4)</i>	-	242,870
Fund balance	79,664,873	69,636,784
	<u>\$105,693,898</u>	<u>\$ 95,811,598</u>

See accompanying notes.

Thibodaux Regional Medical Center

Statements of Revenues, Expenses and Fund Balance

	Year ended September 30	
	1998	1997
Net patient service revenue <i>(Note 9)</i>	\$ 62,032,976	\$ 61,749,698
Other revenue	633,122	646,707
Total revenue	62,666,098	62,396,405
Expenses:		
Salaries and wages	21,466,474	19,397,496
Employee benefits and payroll taxes	3,251,718	3,533,407
Professional fees	5,393,459	6,388,315
Supplies and materials	9,024,679	8,575,662
Purchased services	2,965,039	2,778,494
Provision for bad debts	3,513,370	3,103,601
Other	3,749,699	3,676,412
Depreciation and amortization	4,540,588	4,369,655
Interest <i>(Note 3)</i>	1,204,016	1,087,005
Total expenses	55,109,042	52,910,047
Income from operations	7,557,056	9,486,358
Nonoperating income (expense):		
Investment income	2,488,385	1,970,900
Other	(17,352)	5,867
Total nonoperating income	2,471,033	1,976,767
Revenue in excess of expenses	10,028,089	11,463,125
Fund balance at beginning of year	69,636,784	58,173,659
Fund balance at end of year	\$ 79,664,873	\$ 69,636,784

See accompanying notes.

Thibodaux Regional Medical Center

Statements of Cash Flows

	Year ended September 30	
	1998	1997
Operating activities		
Income from operations	\$ 7,557,056	\$ 9,486,358
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,540,588	4,369,655
Interest expense on debt and capital leases	1,204,016	1,087,005
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(1,204,023)	(979,674)
Increase in other receivables	(157,810)	(35,351)
Increase in inventories and prepaid expenses	(14,529)	(69,845)
Increase in accounts payable and employee compensation	25,420	404,859
Increase (decrease) in amounts due to contractual third-party payors	529,370	(883,700)
Net cash provided by operating activities	12,480,088	13,379,307
Noncapital financing activities		
Taxes and revenue-sharing proceeds received for operations	-	3,306
Other nonoperating income received	12,956	1,142
Net cash provided by noncapital financing activities	12,956	4,448
Capital and related financing activities		
Purchases of property, plant and equipment	(2,534,565)	(5,072,948)
Principal payments on debt incurred for capital purposes	(405,000)	(375,000)
Principal payments on capital lease obligations	(312,903)	(793,942)
Interest payments on debt and capital lease obligations	(1,167,202)	(1,220,055)
Taxes received for debt retirement	-	1,419
Net cash used in capital and related financing activities	(4,419,670)	(7,460,526)
Investing activities		
Interest received on investments	2,480,887	2,027,525
Decrease in funds designated under bond resolutions	211,037	4,310,613
Increase in funds designated by board for plant repair and expansion	(10,660,153)	(9,747,858)
Increase in investments	(736,710)	(490,300)
Net cash used in investing activities	(8,704,939)	(3,900,020)
Net increase (decrease) in cash and cash equivalents	(631,565)	2,023,209
Cash and cash equivalents at beginning of year	4,706,333	2,683,124
Cash and cash equivalents at end of year	\$ 4,074,768	\$ 4,706,333

See accompanying notes.

Thibodaux Regional Medical Center

Notes to Financial Statements

September 30, 1998

1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana d/b/a Thibodaux Regional Medical Center (the Hospital). Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's board of commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

Basis of Accounting

The Hospital uses the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Net Patient Service Revenue and Related Receivables

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they may lack adequate insurance or are covered by contractual payment arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risks by regularly reviewing its accounts and contracts and by providing appropriate allowances.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Medicare and Medicaid Reimbursement Programs

The Hospital provides inpatient services to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Since the amount paid is prospectively determined, a retroactive settlement is not made for Medicare inpatient services. Medicaid inpatient services are paid based on a prospective per diem system. Medicaid outpatient services and Medicare rehabilitation and home health services are reimbursed on a cost basis, subject to certain limitations under the current Medicaid and Medicare regulations. Outpatient ambulatory surgery, clinical lab and radiology diagnostic services to Medicare beneficiaries are reimbursed based on a blend of costs, published facility fees, prevailing charges or fee schedules. All other Medicare outpatient services are reimbursed on a cost basis. Retroactive cost settlements based upon annual cost reports are estimated and recorded in the financial statements.

Final determination of amounts to be received under cost reimbursement regulations is subject to review by program representatives. Although final settlements are not made until a subsequent period, the Hospital estimates and records these retroactive settlements in its financial statements in the period in which services are rendered. Differences between original estimates and subsequent revisions (including final settlements) are reported as an adjustment of net patient service revenue in the period in which the revisions are made.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Cash Equivalents

Cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or under trust agreements.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

During the year ended September 30, 1998, the Hospital adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*; accordingly, all investments are stated at fair value. Changes in the fair value of investments are included in investment income. The effect of adopting the new statement was immaterial.

Inventories

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

Intangible Assets

Intangible assets, consisting primarily of the value of noncompete agreements and the cost in excess of net asset value of certain physician practices acquired by the Hospital, are included in other assets in the balance sheet and are being amortized on a straight-line basis over periods of four to five years.

Property, Plant and Equipment

The Hospital records all property, plant and equipment acquisitions at cost except for assets donated to the Hospital. Donated assets are recorded at fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets. Amortization of assets capitalized under lease arrangements is provided using the straight-line method over the lease term and is included in depreciation and amortization expense.

Unamortized Bond Issuance Costs and Bond Discount

Costs incurred in connection with the issuance of the 1993 Revenue Bonds are being amortized over the terms of the bonds using the interest method. The original issue discount on the 1993 Revenue Bonds is being amortized over the terms of the bonds using the interest method.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Operating and Nonoperating Revenue

The Hospital's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenues. Operating revenues include those generated from direct patient care, related support services, gains or losses from disposition of operating properties and sundry revenues related to the operation of the Hospital. Interest earnings on investments, gains and losses not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

2. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended September 30, 1998 and 1997, approximately 48% and 54%, respectively, of the Hospital's patient service charges were related to services provided to Medicare and Medicaid program beneficiaries.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenues derived from the Medicare program are subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenues derived from the Medicaid program are subject to audit and adjustment and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements for the years ended through September 30, 1996 for the Medicare program and September 30, 1994 for the Medicaid program have been reviewed by program representatives and adjustments have been recorded to correct for the changes required. These adjustments resulted in an increase in net patient service revenue of approximately \$713,000 and \$1,553,000 for the years ended September 30, 1998 and 1997, respectively.

Thibodaux Regional Medical Center
Notes to Financial Statements (continued)

2. Third-Party Payor Arrangements (continued)

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

3. Long-Term Debt

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

	1998	1997
Public Improvement Bonds, Series 1977, 5.6%, due serially to 2002, with remaining annual installments ranging from \$85,000 to \$100,000 (\$85,000 due in 1999)	\$ 370,000	\$ 450,000
Hospital Revenue Bonds, Series 1993, 4.625% to 6.0%, less unamortized discount of \$417,130 at September 30, 1998 (terms described below) (\$325,000 due in 1999)	<u>18,382,870</u>	<u>18,681,530</u>
	<u>18,752,870</u>	<u>19,131,530</u>
Less amounts due within one year	<u>410,000</u>	<u>405,000</u>
	<u><u>\$ 18,342,870</u></u>	<u><u>\$ 18,726,530</u></u>

The aggregate amounts of maturities for all long-term debt in each of the next five years ending September 30 and thereafter are as follows: 1999—\$410,000; 2000—\$440,000; 2001—\$470,000; 2002—\$500,000; 2003—\$400,000; and \$16,950,000 thereafter.

During 1977, the Hospital Service District (the District) issued public improvement bonds totaling \$1,300,000 to finance construction and expansion of the Hospital. The 1977 Series bonds are callable by the District in inverse order of maturities on any interest payment date.

On December 22, 1993, the Hospital issued \$20,000,000 of Hospital Revenue Bonds, Series 1993. The proceeds of the bonds were used to construct and equip a cancer center and outpatient services medical mall adjacent to the existing Hospital facility, and to renovate and expand certain areas within the Hospital facility. The project was completed in December 1996.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

3. Long-Term Debt (continued)

The 1993 Revenue Bonds consist of \$675,000 of serial bonds (original issue \$1,875,000) with interest rates ranging from 4.625% to 4.8%, payable in annual installments of \$325,000 to \$350,000 from 1999 to 2000; \$2,050,000 of 5.5% term bonds due October 1, 2004; \$4,725,000 of 6.0% term bonds due October 1, 2012; and \$11,350,000 of 6.0% term bonds due October 1, 2023. The term bonds are subject to mandatory sinking fund redemption without a premium prior to maturity, beginning October 1, 2000, 2005, and 2013, respectively. The bonds maturing on or after October 1, 2004 are subject to redemption prior to maturity at the option of the Hospital beginning October 1, 2003; the redemption of the bonds prior to maturity is subject to a premium of up to 2% until October 1, 2005.

The Hospital is required to comply with covenants contained in the 1993 Bond Resolution, including, among other requirements, maintaining certain funds on deposit with the Trustee, annual certification to the Trustee of adequate insurance coverage, limitations on the issuance of additional indebtedness by the Hospital, and maintaining a debt service coverage ratio of 1.20. The Hospital was in compliance with these covenants for the years ended September 30, 1998 and 1997. The 1993 Revenue Bonds are secured by a pledge of the Hospital's revenue.

The Hospital incurred total interest costs of approximately \$1,204,000 and \$1,259,000 during the years ended September 30, 1998 and 1997, respectively. Interest costs (including amortization of bond discount and costs of issuance), net of interest earned, which have been capitalized as costs of construction, are as follows:

	<u>1997</u>
Interest costs	\$ 172,000
Interest earned	<u>57,000</u>
Net financing costs capitalized	<u>\$ 115,000</u>

Construction was completed on the expansion and renovation of the Hospital facility in December 1996; therefore, no further interest costs were capitalized in fiscal 1998.

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

4. Capitalized Lease Obligations

The cost and accumulated amortization of all equipment held under capitalized lease obligations are included in equipment and accumulated depreciation and amortization in the balance sheet as follows:

	1998	1997
Equipment	\$ 1,074,174	\$ 1,973,174
Accumulated amortization	664,684	1,292,628
Net book value	\$ 409,490	\$ 680,546

The amounts of future minimum lease payments are as follows:

Year ending September 30:		
1999		\$ 312,024
2000		60,300
Total minimum lease payments		372,324
Less amount representing maintenance costs, included in total minimum lease payments		120,600
Net minimum lease payments		251,724
Less amount representing interest		8,854
Present value of net minimum lease payments (all classified as current)		\$ 242,870

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

5. Assets Whose Use Is Limited

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

	1998	1997
Funds designated by board for plant repair and expansion	\$ 43,408,877	\$ 32,748,724
Funds designated under bond resolutions for debt retirement:		
Public Improvement Bonds, Series 1977	4,369	4,608
Hospital Revenue Bonds, Series 1993:		
Debt Reserve Fund	1,576,951	1,561,463
Debt Service Fund	2,383,803	1,162,778
Funds designated under bond resolution for construction	1,127,082	2,574,393
	\$ 48,501,082	\$ 38,051,966

6. Retirement Plan

Effective September 1, 1993, the Hospital implemented a deferred compensation plan under Section 457(b) of the Internal Revenue Code (the Plan). The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4% for the years ended September 30, 1998 and 1997. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25% of their base compensation, subject to certain limits. Employer contributions vest at 20% per year until they reach 100% at the end of year five. Employee contributions are immediately vested.

Retirement expense recorded by the Hospital for the years ended September 30, 1998 and 1997 totaled approximately \$481,000 and \$449,000, respectively, or approximately 4% of covered payroll in each year.

7. Contingencies

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000,

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

7. Contingencies (continued)

plus interest and costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$1,000,000, with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported.

The Hospital is self-insured for workers' compensation up to \$50,000 per claim, and for employee health insurance up to \$100,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital purchased commercial insurance which provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

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

Year Ended September 30	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1998	\$ 690,000	\$ 1,629,000	\$ 1,647,000	\$ 672,000
1997	\$ 721,000	\$ 1,390,000	\$ 1,421,000	\$ 690,000

8. Cash, Cash Equivalents and Investments

At September 30, 1998 and 1997, the bank balances of the Hospital's deposits, which are included in cash and cash equivalents, investments, and assets whose use is limited in the balance sheet, were entirely insured or collateralized with securities held by the pledging bank in the Hospital's name. In addition, the Hospital had investments in direct obligations

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

8. Cash, Cash Equivalents and Investments (continued)

of the U. S. Government and government agencies of \$42,359,918 and \$24,151,540 at September 30, 1998 and 1997, respectively, and in money market accounts whose underlying investments consist solely of U. S. Government securities of \$2,141,749 and \$1,284,542 at September 30, 1998 and 1997, respectively. The U. S. Government obligations are uninsured and unregistered, with securities held by the trustee in the Hospital's name. The money market funds are uninsured and unregistered, with securities held by the trustee but not in the Hospital's name.

The fair values for U. S. Government and government agency obligations are based on the market prices listed by independent pricing services. The fair values for money market accounts and certificates of deposit are based on cost.

Statutes authorize the Hospital to invest in direct obligations of the U. S. Government or its agencies, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust funds registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions).

9. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	1998	1997
Total patient service charges (excluding charity care of \$897,662 in 1998 and \$1,117,946 in 1997)	\$104,550,293	\$100,748,399
Contractual and other allowances:		
Medicaid	4,881,231	4,177,771
Medicare	21,971,728	23,602,588
Managed care organizations	12,646,253	8,585,183
Other	3,018,105	2,633,159
Total contractual and other allowances	42,517,317	38,998,701
Net patient service revenue	\$ 62,032,976	\$ 61,749,698

Thibodaux Regional Medical Center

Notes to Financial Statements (continued)

10. Postemployment Benefits

The Hospital provides health care benefits to retired hospital employees and their families. Employees with at least 10 years of service and who are age 55 or older at retirement are eligible to participate. Effective January 1, 1996, plan participants are required to contribute 100% of the plan's monthly premium. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 1998, 30 retired employees participated in the plan. Expenses related to this plan were immaterial for the years ended September 30, 1998 and 1997.

Thibodaux Regional Medical Center

Required Year 2000 Supplementary Information (Unaudited)

September 30, 1998

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Hospital's computer programs and certain computer-aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

The Hospital has substantially completed the awareness and assessment stages of its year 2000 project, including an inventory of computer systems and computer-aided medical equipment that may be affected by the year 2000 issue and that are necessary to conducting Hospital operations. The Hospital has determined that it will be required to modify or replace certain portions of its software, hardware, and patient care equipment so that its systems and equipment will function properly with respect to dates in the year 2000 and thereafter. The Hospital is in the remediation stage of its year 2000 project, and is using both internal and external resources to reprogram, or replace, and test the software and patient care equipment for year 2000 readiness. The Hospital anticipates substantially completing the year 2000 project, including the validation and testing stage, by September 1999. The total cost of the year 2000 project is estimated to be approximately \$500,000 to \$1,000,000. As of September 30, 1998, the Hospital had incurred approximately \$50,000 related to the assessment of, and preliminary efforts on, its year 2000 project and the development of a modification plan, purchase of new systems and equipment, and systems modifications. There were no commitments outstanding at September 30, 1998 related to the Hospital's year 2000 project.

The costs for the year 2000 project and the date on which the Hospital believes it will complete the year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources. The Hospital's operating results could be materially impacted if actual costs of the year 2000 project are significantly higher than management estimates or if the systems and equipment of the Hospital or those of other companies on which it relies (such as third-party payors) are not compliant in a timely manner.

**Report of Independent Auditors 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. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the financial statements of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital) as of and for the year ended September 30, 1998, and have issued our report thereon dated October 30, 1998. 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, 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 under *Government Auditing Standards*, except as follows.

The Hospital did not comply with the requirement of Louisiana Revised Statute 24:513 to submit the audited financial statements for the year ended September 30, 1998 to the Office of Legislative Auditor within six months of the close of the Hospital's fiscal year. The delay in submission of the audited financial statements was due to (1) delays in receiving from the Medicare fiscal intermediary certain information necessary to complete a preliminary cost report used by the Hospital to estimate amounts due from the Medicare program, and (2) the issuance of Governmental Accounting Standards Board (GASB) Technical Bulletin 99-1 on March 29, 1999, which amended GASB Technical Bulletin 98-1 regarding year 2000 disclosures. The Hospital delayed the completion of the audit of

the fiscal 1998 financial statements until after the issuance of GASB Technical Bulletin 99-1, in order to apply the provisions of the new pronouncement. GASB Technical Bulletin 99-1 permitted the Hospital to present year 2000 disclosures as required supplementary information rather than in a note to the audited financial statements, and as a result the report of independent auditors on the financial statements was unqualified rather than qualified.

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. However, we noted other matters involving the internal control over financial reporting that we have reported to the board of commissioners and management of the Hospital in a separate report dated October 30, 1998.

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.

Ernst + Young LLP

October 30, 1998

Independent Auditors' Report on Compliance With Bond Resolution

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

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) (the Hospital) as of September 30, 1998, and the related statements of revenues, expenses and fund balance and cash flows for the year then ended, and have issued our report thereon dated October 30, 1998.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the terms, covenants, provisions, or conditions of Sections 5.1, 5.3, 5.4, 6.1, 6.2 and 7.1 of the Bond Resolution adopted by the board of commissioners on October 15, 1993 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

Ernst & Young LLP

October 30, 1998

The Board of Commissioners
and Management
Thibodaux Regional Medical Center

In planning and performing our audit of the financial statements of Thibodaux Regional Medical Center (Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana) for the year ended September 30, 1998, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

We have the following comments on other matters.

Evaluation of Allowance for Uncollectible Accounts

The Hospital estimates its allowance for uncollectible accounts based on specific reserve percentages applied to each aging category and payor type of accounts receivable. In order to evaluate the continued propriety of the reserve percentages being applied to the Hospital's accounts receivable aging, we recommend the Hospital perform additional analytical review procedures on a periodic basis. Examples of analytical review procedures in this area include a hindsight review, in which actual and expected future write-offs of the prior period's accounts receivable would be compared to the recorded allowance at the end of the prior period; a revenue runoff test, in which net write-offs for a particular year are computed as a percentage of nonthird-party revenue for that year with the resulting percentage applied to the current year's nonthird-party revenue in order to estimate the uncollectible accounts for the current year; and a comparison of the provision for uncollectible accounts to self-pay revenue for the past several years. We suggest such analytical review procedures be performed at least annually, and more frequently if there is a significant change in billing and collection procedures, payor mix, or the aging of accounts. Such procedures should help the Hospital evaluate the propriety of the reserve percentages and should provide a basis for any necessary revisions to those percentages.

Malpractice Claims History

For the past several years, the Hospital has been self-insured for the first \$100,000 per claim (\$300,000 in the aggregate per year) for professional liability losses. The Hospital records a reserve for medical malpractice losses based on loss runs provided by The St. Paul. While these loss runs include all claims reported to the Hospital, we recommend the Hospital begin to estimate and record a reserve for incurred but not reported (IBNR) losses. In order to develop information needed to estimate IBNR, the Hospital should begin tracking the history of malpractice claims. As an alternative, we suggest the Hospital consider the use of an outside actuary to estimate its medical malpractice reserve. An actuarial estimation methodology would consider relevant industry trends and other factors which, given the Hospital's limited self-insurance history, may provide a better estimate of the ultimate expected medical malpractice loss.

Accounting for Investments

During the year ended September 30, 1998, the Hospital adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*. GASB Statement No. 31 generally requires that investments be stated at fair value and that changes in the fair value of investments be included in investment income. In order to comply with the new statement, we recommend the Hospital implement procedures to obtain reliable fair value information for its investments on a monthly basis, and establish general ledger accounts to account for unrealized gains and losses on investments.

Home Health Billings

Home health billings are performed by Olsten under a management contract. The Hospital is currently not performing any procedures to ensure Olsten is billing correctly. We recommend the Hospital perform periodic reviews of a sample of home health billings to ensure the billings are appropriate and that appropriate documentation is being maintained.

* * * * *

This report is intended solely for the information and use of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

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

Ernst + Young LLP

October 30, 1998

**Fiscal Year 1998 Audited Financial Statements
Responses to Management Recommendations**

Evaluation of Allowance for Uncollectible Accounts

The hospital will incorporate additional procedures to review its allowance for uncollectible accounts on a periodic basis. We will review the allowance set up at the end of the prior fiscal year and compare the actual write-offs recorded during the current year to see if the allowances were adequate. We will also review changes in payor mix. Adjustments will be made to write-off percentages, if required.

Malpractice Claims History

We will contact our malpractice insurer to assist the hospital in developing processes including, but not limited to, tracking of historical malpractice claims at our facility. This should enable us to better estimate appropriate reserves for claims incurred but not yet reported.

Accounting for Investments

We have contacted all financial institutions in which the hospital has funds invested to provide us with monthly statements detailing the fair market value of our investments. General ledger accounts will be set up to record the unrealized gains and losses on the investments on a monthly basis.

Home Health Billings

The hospital is currently auditing random, representative samples of Olsten billings each quarter of the calendar year. This process was begun in February 1999. The Director of Home Health has requested from Olsten the HCPCS and revenue codes that they have assigned for present changes. Olsten has also been requested to supply random, representative samples of UB's for audit by Thibodaux Regional Medical Center's Home Health.



**THIBODAUX REGIONAL
MEDICAL CENTER**

*Hospital Service District #3
Parish of Lafourche*

April 26, 1999

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Re: Engagement of Lafourche Parish Hospital Service District No. 3
Thibodaux Regional Medical Center
ID No. - 1568

Dear Mr. Austin:

This letter is in reply to your correspondence dated April 8, 1999, regarding an explanation of noncompliance with state law in the filing of our audit reports. Since the Hospital's Cost Report required major revisions due to the complexities of changes in federal regulations, an extension for filing was granted to all hospitals with fiscal years ending September 30, 1998. The results of the cost report have a significant impact on the financial statements of the hospital. For these reasons, we needed to be assured that all changes had been accounted for in the review of our cost report, prior to the completion of our financial statements.

An additional factor which contributed to the delay in filing was the proposal of a Governmental Accounting Standards Board release which would have enabled our auditors to issue an unqualified opinion rather than a qualified opinion on our financial statements. This was of significant importance because the hospital is in the process of a major expansion project which may involve a bond issue. We felt we would receive a better bond rating (and save the hospital a considerable amount of interest expense) if the financials for September 30, 1998 contained the unqualified opinion as opposed to only a qualified opinion.

If you have any questions or need further information, please contact me at 504-493-4740.
Thank you for your attention to this matter.

Sincerely,

David M. Snyder
Chief Executive Officer

DMS:lr

April 27, 1999

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RECEIVED
LEGISLATIVE AUDITOR
99 APR 28 PM 3:21

Dear Dr. Kyle:

Enclosed with this letter are one unbound and six bound sets of the following documents relating to our report on the results of our audit of the financial statements of Thibodaux Regional Medical Center for the year ended September 30, 1998:

1. Audited Financial Statements
2. Report on Compliance and on Internal Control Over Financial Reporting
3. Report on Compliance with Bond Resolution
4. Management Letter

Also enclosed are one original and six copies of the following: (1) Hospital management's responses to our management letter recommendations, and (2) Hospital management's explanation for the Hospital's noncompliance with state law in the filing of the audit report.

You asked us to report the amount of per diem expenses received by the Hospital Board members. The Hospital Board members serve without remuneration and do not receive per diem payment for expenses.

Copies of the documents accompanying this letter have been furnished to Mr. Steve Gaubert, Chief Financial Officer, at Thibodaux Regional Medical Center.

If you have any questions concerning any of the information being forwarded to you, please give me a call.

Very truly yours,



Sally P. Seyler
Senior Manager

Enclosures

Copy to Mr. Steven C. Gaubert, Chief Financial Officer
Thibodaux Regional Medical Center

Receipt Acknowledged
Legislative Auditor

By 