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**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,**  
**STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AND FINANCIAL STATEMENTS**

**MARCH 31, 2008**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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

8/13/08



**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,**  
**STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS AND**  
**FINANCIAL STATEMENTS**

**MARCH 31, 2008**

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**INDEPENDENT AUDITORS' REPORT**

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) (the Hospital) as of March 31, 2008 and 2007, and the related statements of revenues, 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 of America 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of March 31, 2008 and 2007, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2008, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 18 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*Postlethwaite, & Netterville*

Baton Rouge, Louisiana  
August 5, 2008

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

Management's Discussion and Analysis

March 31, 2008

This section of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana's (d/b/a Terrebonne General Medical Center) (the 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, 2008. Please read it in conjunction with the financial statements in this report.

**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 changes 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.

**Financial Highlights for the Year Ended March 31, 2008**

- The Hospital's assets increased by approximately \$13,718,000, or 4%. Cash from the 2003 bond issue was used and closed out. It funded a portion of the new MRI and 64 slice Cat Scan installed during the 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)

• During the year, the Hospital's total operating revenues increased by \$1,586,000 to \$162,265,000 from prior year while operating expenses increased \$5,450,000, or 4%, to \$155,058,000. The Hospital has income from operations of \$7,207,000, which is 4% of total operating revenue and represents a decrease from the prior fiscal year's income of \$11,071,000, or 7% of total operating revenue. Net revenue remained relatively flat due to lower patient day volume and decrease in outpatient activity. Expenses increased causing a decrease in net operating income.

• During the fiscal year, the Hospital settled several prior year cost reports with Medicare regarding additional reimbursement for Disproportionate Share and Bad Debt Reimbursement. These prior year settlements were responsible for \$2,810,000 of the operating income generated for the year. Included in this amount is \$1,050,000 received as our portion of a federal lawsuit and appeal decided in our favor regarding back DSH pay on fiscal years prior to 1997.

• In April, the hospital received a payment of \$2,930,000 as our portion of a federal grant issued to assist with increasing wage cost in the region due to staff shortages generated by the hurricane disaster. In June, we received \$1,008,000 of additional funds. This amount was recorded as revenue during the year.

• During the fiscal year, the Hospital made significant capital acquisitions including the following totaling \$11,693,000:

- Completion of MRI Replacement and purchase of 64 Slice Cat Scan
- Various Rental Building and Parking Projects
- Continuation of Various Information Technology Projects including PACS Upgrade and Emergency Software
- Start-up of Renovation Projects
- New Endoscopes, Lab and Other Diagnostic Equipment

The source of the funding for these projects was derived from operations and construction funds restricted for capital acquisitions. The construction fund was closed at the end of the 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)

**Net Assets**

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

**TABLE 1**  
**Condensed Balance Sheets**

	March 31		Dollar Change	Percentage Change
	2008	2007		
	<i>(In Thousands)</i>			
Total current assets	\$41,597	\$46,514	(\$4,917)	(11%)
Capital assets	135,708	137,486	(1,778)	(1%)
Other assets, including board designated investments	151,575	131,162	20,413	16%
<b>Total assets</b>	<b>\$328,880</b>	<b>\$315,162</b>	<b>\$13,718</b>	<b>4%</b>
Current liabilities	\$20,398	\$20,125	273	1%
Long-term debt outstanding and other long-term liabilities	69,992	71,308	(1,316)	(2%)
<b>Total liabilities</b>	<b>90,390</b>	<b>91,433</b>	<b>(1,043)</b>	<b>(1%)</b>
Invested in capital asset, net of related debt	65,025	66,919	(1,894)	(3%)
Restricted net assets	3,222	3,202	20	1%
Unrestricted net assets	170,243	153,608	16,635	11%
<b>Total liabilities and net assets</b>	<b>\$328,880</b>	<b>\$315,162</b>	<b>\$13,718</b>	<b>4%</b>

As can be seen in Table 1, total assets increased by \$13,718,000 to \$328,880,000 at March 31, 2008, up from \$315,162,000 at March 31, 2007. The change in total assets results primarily from the positive results of operations and increases in the investment portfolio.



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 and Expenses**

The following table presents a summary of the Hospital's revenues and expenses for each of the years ended March 31, 2008 and 2007.

**TABLE 2**  
**Condensed Statements of Revenue and Expenses**

	March 31 2008	2007	Dollar Change	Percentage Change
	<i>(In Thousands)</i>			
Net patient service revenue	\$156,236	\$155,573	\$663	0%
Other operating revenue, net	6,029	5,106	923	18%
<b>Total operating revenues</b>	<b>162,265</b>	<b>160,679</b>	<b>1,586</b>	<b>1%</b>
Salaries and employee benefits	76,662	72,991	3,671	5%
Supplies and materials	42,417	40,778	1,639	4%
Purchased services	13,321	12,505	816	7%
Professional fees	1,999	1,904	95	5%
Other operating expenses	7,173	8,343	(1,170)	(14%)
Depreciation and amortization	13,486	13,087	399	3%
<b>Total operating expenses</b>	<b>155,058</b>	<b>149,608</b>	<b>5,450</b>	<b>4%</b>
<b>Operating Income</b>	<b>7,207</b>	<b>11,071</b>	<b>(3,864)</b>	<b>(35%)</b>
<b>Investment Income:</b>				
Funds held by trustee under bond resolution	99	238	(139)	(58%)
Other, including net unrealized gains/losses on investments	11,278	7,110	4,168	59%
Interest expense	(3,778)	(3,835)	57	(1%)
Other expenses	(45)	(255)	210	(82%)
<b>Total non operating expenses</b>	<b>7,554</b>	<b>3,258</b>	<b>4,296</b>	<b>132%</b>
<b>Revenue in excess of expenses</b>	<b>14,761</b>	<b>14,329</b>	<b>432</b>	<b>3%</b>
<b>Net assets:</b>				
Beginning of period	223,729	209,400		
<b>End of period</b>	<b>\$238,490</b>	<b>\$223,729</b>		

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

**Sources of Revenue**

*Operating Revenue*

During fiscal year 2008, the Hospital derived the majority of its total revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers 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, 2008 and 2007.

**TABLE 3  
Payor Mix**

	2008	2007
Medicare	45%	47%
Medicare Advantage Plan	6	4
Managed Care	34	33
Medicaid	12	12
Self-pay and other	3	4
Total patient revenues	100%	100%

*Other Operating Revenue*

The Hospital also generated other operating income of \$6,029,000 in 2008 and \$5,106,000 in 2007. This income does not relate to patient revenues and consists primarily of rental income, cafeteria and vending income, and other departmental income. The majority of income comes from rental, vending, and cafeteria income that totaled \$2,969,000 and \$3,001,000 in 2008 and 2007, respectively.

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

Management's Discussion and Analysis (continued)

*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 its agencies and other federal agencies. These investments earned \$6,576,000 and \$5,442,000 during fiscal year 2008 and 2007, respectively. An unrealized gain on investments increased investments by \$4,801,000 in 2008 and \$1,841,000 in 2007. This increase was a 3.8% increase in the fair value gain on investments due primarily to changes in the interest rates and market conditions. Another \$10,546,000 was transferred from operating cash to investments during the year also increasing the balance.

**Operating and Financial Performance**

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2008 and 2007:

Overall activity at the Hospital, as measured by patient discharges, decreased by 5% to 11,166 in 2008 compared to 11,771 in 2007. Patient days decreased by 3% over prior year from 54,941 in 2007 to 53,254 in 2008. As a result, the average length of stay for the Hospital increased by 2% with the stay length at 4.77 days in 2008 compared to 4.67 days in 2007.

Outpatient revenue increased in fiscal year 2008 due to an increase in smaller outpatient volume by 3% and a rate increase which occurred in October 2007. Outpatient surgeries decreased by 2.1% over 2007 levels. Net patient service revenue increased \$663,000, or less than 1%, in 2008 as a result of changes in Hospital volume and reimbursements changes. Increases in pricing structure and some prior year cost report issues related to disproportionate share reimbursement slightly offset the volume and reimbursement decreases during the year. Contractual allowances increased to 63% of charges in 2008 from 61% in 2007.

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 \$2,533,000 were forgone during 2008, compared to \$1,884,000 in 2007, or a 34% increase over the prior fiscal year. Provision for bad debts decreased by \$2,200,000, or 26%, compared to the prior year. This decrease occurred due to the decrease in write offs experiences during the year. These decreases are due to self pay discounts and better indigency identification. Write offs from self pay discounts increased from \$2,191,000 in 2007 to \$2,329,000 in 2008.

During fiscal year 2008, management focused resources on employee retention and maintaining staffing especially in clinical and nursing areas. As a result, employee wages and compensation increased by 2% or \$1,643,000 over the prior year as a result. FTEs increased from 1,180 in 2006 to 1,250 in 2007 to 1,248 in 2008. Changes in employee benefits caused an 11% decrease in benefits expense. Salaries and benefits were 47% of total operating revenue in 2008 and 46% in 2007.

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Management's Discussion and Analysis (continued)

The cost of supplies and materials increased by \$1,639,000, or 4%. The increase occurred due to general inflation in medical supplies and an increase in implant volume. Implants are more expensive supplies and are related in increases in orthopedic, cardiology, and neurosurgery cases. Purchased services increased by \$816,000 or 7% due to increases in maintenance contracts and licensing fees.

Depreciation and amortization increased by \$399,000 due to new assets added during the year and a full year of depreciation on the Women's Center Building. Total operating expenses increased by \$5,450,000, or 4%, for the year ended March 31, 2008.

Nonoperating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Nonoperating revenue increased over the prior year due to the fact that there was a higher yield in the current year than in the previous year.

**Capital Assets**

During fiscal year 2008, the Hospital invested in a broad range of capital assets included in Table 4 below.

**TABLE 4**  
**Capital Assets**

	March 31 2008	March 31 2007	Dollar Change	Percentage Change
Land and land improvements	\$21,504	\$21,250	\$254	1%
Building	133,809	130,340	3,469	3%
Equipment	127,875	117,949	9,926	8%
Subtotal	283,188	269,539	13,649	5%
Less accumulated depreciation	149,358	136,903	12,455	9%
Construction-in progress	1,878	4,850	(2,972)	(61%)
Net capital assets	<u>\$135,708</u>	<u>\$137,486</u>	<u>\$(1,778)</u>	<u>(1%)</u>

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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**Management's Discussion and Analysis (continued)**

Net capital assets have decreased due to normal depreciation which has been offset 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 2009 capital budget projects includes spending up to \$7,319,000 for capital projects, of which 63% 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 2009 Capital Budget  
(In Thousands)**

Replacement equipment	\$4,639
Contingency	1,038
Other	1,642
Total	<u>\$7,319</u>

**Long-Term Debt**

At year-end, the Hospital had \$70,593,000 in short-term and long-term debt, net of a discount of \$647,000. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents 21% of the Hospital's total assets at March 31, 2008.

**Financial Highlights for the Year Ended March 31, 2007**

- The Hospital's assets increased by approximately \$14,471,000, or 5%. Cash from the 2003 bond issue was used to construct the Women's Center, which was completed in May 2006.
- During the year, the Hospital's total operating revenues increased \$6,949,000, or 5%, to \$160,679,000 from prior year while expenses increased \$8,886,000, or 6%, to \$149,608,000. The Hospital has income from operations of \$11,071,000, which is 7% of total operating revenue and represents a decrease from the prior fiscal year's income of \$13,008,000, or 8% of total operating revenue. Net revenue increased due to prior year cost report settlements, price increases and an increase in outpatient activity. Expenses increased at a higher rate than revenues thus decreasing net operating revenue.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

- During the fiscal year, the Hospital settled several prior year cost reports with Medicare regarding additional reimbursement for Disproportionate Share and Bad Debt Reimbursement. These prior year settlements were responsible for \$4,700,000 of the operating income generated for the year.
- During the fiscal year, the Hospital made significant capital acquisitions including the following totaling \$12,608,000:
  - Completion of Women's Center Building and Equipment
  - Various Rental Building and Parking Projects
  - Flood Protection Projects
  - Continuation of Various Information Technology Projects including PACS Upgrade
  - Continued Replacement of MRI and purchase of 64 Slice Cat Scan
  - Start-up of Renovation Projects
  - PCA Pumps
  - Lab Equipment

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

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

Management's Discussion and Analysis (continued)

**Net Assets**

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

**TABLE 1**  
**Condensed Balance Sheets**

	March 31 2007	2006	Dollar Change	Percentage Change
	<i>(In Thousands)</i>			
Total Current Assets	\$46,514	\$39,585	\$6,929	18%
Capital Assets	137,486	137,862	(376)	0%
Other Assets, including board designated investments	131,162	123,244	\$7,918	6%
<b>Total Assets</b>	<b>\$315,162</b>	<b>\$300,691</b>	<b>\$14,471</b>	<b>5%</b>
Current Liabilities	\$20,125	\$18,733	\$1,392	7%
Long-term debt outstanding and other long-term liabilities	71,308	72,558	(1,250)	(2%)
<b>Total Liabilities</b>	<b>91,433</b>	<b>91,291</b>	<b>142</b>	<b>0%</b>
Invested in capital asset, net of related debt	66,919	68,729	(1,810)	(3%)
Restricted net assets	3,202	3,184	18	1%
Unrestricted net assets	153,608	137,487	16,121	12%
<b>Total liabilities and net assets</b>	<b>\$315,162</b>	<b>\$300,691</b>	<b>\$14,471</b>	<b>5%</b>

As can be seen in Table 1, total assets increased by \$14,471,000 to \$315,162,000 at March 31, 2007, up from \$300,691,000 at March 31, 2006. The change in total assets results primarily from the positive results of operations and increases in the investment portfolio.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

**Summary of Revenue and Expenses**

The following table presents a summary of the Hospital's revenues and expenses for each of the years ended March 31, 2007 and 2006.

**TABLE 2**  
**Condensed Statements of Revenue and Expenses**

	March 31 2007	2006	Dollar Change	Percentage Change
	<i>(In Thousands)</i>			
Net patient service revenue	\$155,573	\$148,910	\$6,663	4%
Other revenue, net	5,106	4,820	286	6%
<b>Total operating revenues</b>	<b>160,679</b>	<b>153,730</b>	<b>6,949</b>	<b>5%</b>
Salaries and employee benefits	72,991	69,216	3,775	5%
Supplies and materials	40,778	37,163	3,615	10%
Purchased services	12,505	11,840	665	6%
Professional fees	1,904	2,047	(143)	(7%)
Other operating expenses	8,343	8,115	228	3%
Depreciation and amortization	13,087	12,341	746	6%
<b>Total operating expenses</b>	<b>149,608</b>	<b>140,722</b>	<b>8,886</b>	<b>6%</b>
Operating Income	11,071	13,008	(1,937)	(15%)
Nonoperating revenue (expenses), net	3,258	(1,476)	4,734	321%
Change in net assets	14,329	11,532	\$2,797	24%
Net assets:				
Beginning of period	209,400	197,868		
End of period	<u>\$223,729</u>	<u>\$209,400</u>		



Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

**Sources of Revenue**

*Operating Revenue*

During fiscal year 2007, the Hospital derived the majority of its total revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers 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, 2007 and 2006.

**TABLE 3  
Payor Mix**

	2007	2006
Medicare	47%	52%
Medicare Advantage Plan	4	-
Managed Care	33	32
Medicaid	12	12
Self-pay and other	4	4
Total patient revenues	100%	100%

*Other Operating Revenue*

The Hospital also generated other operating income of \$5,106,000 in 2007 and \$4,820,000 in 2006. This income does not relate to patient revenues and consists primarily of rental income, cafeteria and vending income, and other departmental income. The majority of income comes from rental, vending, and cafeteria income that totaled \$3,001,000 and \$2,962,000 in 2007 and 2006, respectively.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

*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 its agencies and other federal agencies. These investments earned \$5,442,000 and \$4,268,000 during fiscal year 2007 and 2006, respectively. These earnings were increased by \$1,841,000 in 2007, or a 1.6%, increase in the fair value gain on investments due primarily to changes in the interest rates and market conditions.

**Operating and Financial Performance**

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2007 and 2006:

Overall activity at the Hospital as measured by patient discharges decreased by 5% to 11,771 in 2007 compared to 12,409 in 2006. Patient days decreased by 4% over prior year from 57,087 in 2006 to 54,941 in 2007. As a result, the average length of stay for the Hospital increased by 3% with the stay length at 4.67 days in 2007 compared to 4.60 days in 2006.

Outpatient revenue increased in fiscal year 2007 due to price increases which occurred in December 2006 and a shift in Cath Lab procedures from inpatient to outpatient settings. The outpatient volume increased in overall Cath Lab procedures by only 1% while diagnostics increased by approximately 4-7%. Outpatient visits were flat increasing only .5%. Outpatient surgeries increased by 3.5% over 2006 levels. Net patient service revenue increased \$8,691,000, or 6%, in 2007 as a result of changes in Hospital's pricing structure and some prior year cost report issues related to disproportionate share reimbursement. Contractual allowances increased to 61% of charges in 2007 and 60% in 2006.

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 \$1,884,000 were forgone during 2007, compared to \$1,235,000 in 2006, or a 53% increase over the prior fiscal year. Provision for bad debts decreased by \$410,000, or 5%, compared to the prior year. This decrease occurred due to the implementation of a self-pay discount program that offsets the related bad debt expense from this patient population. Write offs from self pay discounts increased from \$1,881,000 in 2006 to \$2,191,000 in 2007.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana  
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Management's Discussion and Analysis (continued)

During fiscal year 2007, management focused resources on employee retention and maintaining and increasing staffing especially in clinical and nursing areas. As a result, a market increase was awarded in September 2006 in order to adjust to the changing employment environment in Louisiana. Employee wages and compensation increased by \$6,062,000 over the prior year as a result. FTEs increased from 1,237 in 2005 to 1,180 in 2006 to 1,250 in 2007, an increase of 6% over prior year. The hospital opened the Women's Center and increased staffing as a result of increased volume and service. The increase in staffing also increased employee benefits and caused a 4% increase in benefits expense. Salaries and benefits were 46% of total operating revenue in 2007 and 45% in 2006.

The cost of supplies and materials increased by \$3,615,000, or 10%. The increase occurred due to general inflation in medical supplies and an increase in implant volume. Implants are more expensive supplies and are related in increases in orthopedic, cardiology, and neurosurgery cases. Purchased services increased by \$665,000 due to increases in maintenance contracts and licensing fees.

Depreciation and amortization increased by \$746,000 due to the Women's Center Building opening. Total operating expenses increased by \$10,914,000, or 8%, for the year ended March 31, 2007.

Nonoperating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Nonoperating revenue increased over the prior year due to the fact that there was a higher yield in the current year than in the previous 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)

**Capital Assets**

During fiscal year 2007, the Hospital invested in a broad range of capital assets included in Table 4 below.

**TABLE 4**  
**Capital Assets**

	March 31 2007	2006	Dollar Change	Percentage Change
Land and land improvements	\$21,250	\$19,783	\$1,467	7%
Building and fixed equipment	130,340	111,464	18,876	17%
Equipment	117,949	109,375	8,574	8%
Subtotal	269,539	240,622	28,917	12%
Less accumulated depreciation	136,903	124,695	12,208	10%
Construction-in progress	4,850	21,935	(17,085)	(78%)
Net capital assets	\$137,486	\$137,862	(\$376)	0%

Net capital assets have 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 2008 capital budget projects spending up to \$7,372,000 for capital projects, of which 32% 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.

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

Management's Discussion and Analysis (continued)

**TABLE 5**  
**Fiscal Year 2008 Capital Budget**  
*(In Thousands)*

Replacement equipment	\$2,383
Contingency	1,062
New Technology	3,255
Regulatory	<u>672</u>
Total	<u>\$7,372</u>

**Long-Term Debt**

At year-end, the Hospital had \$71,802,000 in short-term and long-term debt, net of a discount of \$708,000. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents 23% of the Hospital's total assets at March 31, 2007.

**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**BALANCE SHEETS**  
**MARCH 31, 2008 AND 2007**

**ASSETS**

(in thousands)

	<u>2008</u>	<u>2007</u>
<b><u>CURRENT ASSETS</u></b>		
Cash and cash equivalents	\$ 10,173	\$ 14,461
Patient accounts receivable, net of allowances for uncollectible accounts of \$23,309 in 2008 and \$22,469 in 2007	12,945	12,935
Estimated net receivables under government programs	6,965	9,300
Inventories	3,512	3,652
Prepaid expenses	2,300	1,700
Other current assets	2,480	1,264
Funds held by trustee under bond resolution	3,222	3,202
Total current assets	<u>41,597</u>	<u>46,514</u>
<b><u>CAPITAL ASSETS</u></b>		
Land and land improvements	21,504	21,250
Buildings	133,809	130,340
Equipment	127,875	117,949
Construction-in-progress	1,878	4,850
	<u>285,066</u>	<u>274,389</u>
Less accumulated depreciation and amortization	149,358	136,903
Net capital assets	<u>135,708</u>	<u>137,486</u>
<b><u>INVESTMENTS AND ACCRUED INTEREST</u></b>		
Funds designated by board of commissioners for plant replacement and expansion, including accrued interest of \$1,013 in 2008 and \$994 in 2007	147,555	125,691
Funds held by trustee under bond resolution, including accrued interest of \$6 in 2008 and \$17 in 2007, less current portion	-	1,325
Total investments and accrued interest	<u>147,555</u>	<u>127,016</u>
<b><u>OTHER ASSETS</u></b>		
Other assets	4,020	4,146
Total other assets	<u>4,020</u>	<u>4,146</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 328,880</u></b>	<b><u>\$ 315,162</u></b>

The accompanying notes are an integral part of these statements.

**LIABILITIES AND NET ASSETS**

(in thousands)

	2008	2007
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable and accrued liabilities	\$ 8,639	\$ 7,566
Salaries and employee benefit liabilities	4,819	4,471
Accrued interest payable	1,886	1,915
Self-insurance reserves	3,724	4,903
Current maturities of long-term debt	1,330	1,270
Total current liabilities	20,398	20,125
<b><u>LONG-TERM LIABILITIES</u></b>		
Hospital revenue bonds, less current portion (net of discount of \$647 in 2008 and \$708 in 2007)	69,263	70,532
Other accrued liabilities, less current portion	729	776
Total long-term debt	69,992	71,308
 Total liabilities	 90,390	 91,433
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	65,025	66,919
Restricted net assets	3,222	3,202
Unrestricted net assets	170,243	153,608
Total net assets	238,490	223,729
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 328,880</b>	 <b>\$ 315,162</b>

**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED MARCH 31, 2008 AND 2007**

(in thousands)

	<u>2008</u>	<u>2007</u>
<b><u>OPERATING REVENUES</u></b>		
Net patient service revenue	\$ 156,236	\$ 155,573
Other operating revenue, net	<u>6,029</u>	<u>5,106</u>
Total operating revenues	<u>162,265</u>	<u>160,679</u>
<b><u>OPERATING EXPENSES</u></b>		
Salaries and employee benefits	76,662	72,991
Supplies and materials	42,417	40,778
Purchased services	13,321	12,505
Professional fees	1,999	1,904
Other operating expenses	7,173	8,343
Depreciation and amortization	<u>13,486</u>	<u>13,087</u>
Total operating expenses	<u>155,058</u>	<u>149,608</u>
<b>INCOME FROM OPERATIONS</b>	7,207	11,071
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Investment revenue:		
Funds held by trustee under bond resolution	99	238
Other, including net unrealized gains/losses on investments	11,278	7,110
Interest expense	(3,778)	(3,835)
Other expenses	<u>(45)</u>	<u>(255)</u>
Total nonoperating revenues (expenses)	<u>7,554</u>	<u>3,258</u>
<b>CHANGE IN NET ASSETS</b>	14,761	14,329
Net assets - beginning of year	<u>223,729</u>	<u>209,400</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 238,490</u>	<u>\$ 223,729</u>

The accompanying notes are an integral part of these statements.



**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MARCH 31, 2008 AND 2007**

(in thousands)

	2008	2007
<b><u>Operating activities</u></b>		
Cash collected from patients and third-party payors	\$ 158,560	\$ 161,103
Cash payments to employees and for employee-related costs	(76,315)	(74,443)
Cash payments for operating expenses	(60,411)	(62,768)
Net cash provided by operating activities	21,834	23,892
<b><u>Capital and related financing activities</u></b>		
Purchases of capital assets	(11,693)	(12,608)
Principal payments on bonds	(1,361)	(1,301)
Interest payments on debt	(3,806)	(3,863)
Net cash (used in) capital and related financing activities	(16,860)	(17,772)
<b><u>Investing activities</u></b>		
Interest received on investments	6,458	6,698
Purchases of investments	(134,799)	(165,266)
Proceeds on disposal or maturity of investments	119,079	157,490
Net cash used in investing activities	(9,262)	(1,078)
<b><u>Noncapital financing activity</u></b>		
Proceeds on sale of product line	-	65
Net cash provided by noncapital financing activity	-	65
<b>Net change in cash and cash equivalents</b>	(4,288)	5,107
Cash and cash equivalents at beginning of year	14,461	9,354
Cash and cash equivalents at end of year	\$ 10,173	\$ 14,461

The accompanying notes are an integral part of these statements.

**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA**  
**(d/b/a TERREBONNE GENERAL MEDICAL CENTER)**

**STATEMENTS OF CASH FLOWS (continued)**  
**YEARS ENDED MARCH 31, 2008 AND 2007**

(in thousands)

	<u>2008</u>	<u>2007</u>
<b><u>Reconciliation of operating income to net cash provided by operating activities</u></b>		
Income from operations	\$ 7,207	\$ 11,071
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	13,486	13,087
Provision for bad debts	8,395	10,215
Loss on sale of equipment	133	47
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(8,406)	(8,933)
Government program receivables	2,334	(2,703)
Other assets	(1,725)	(518)
Accounts payable and accrued liabilities	410	1,626
Net cash provided by operating activities	<u>\$ 21,834</u>	<u>\$ 23,892</u>

The accompanying notes are an integral part of these statements.

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

Notes to Basic Financial Statements

March 31, 2008

**1. Summary of Significant Accounting Policies**

**Organization**

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana, a political subdivision of the state of Louisiana, owns and operates Terrebonne General Medical Center (the Hospital). The Hospital is a 321-bed acute care facility providing comprehensive medical services in 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 fair 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 capital assets.

Investment income is reported as nonoperating revenues. Unrealized gains and losses reflected in other nonoperating revenues were an unrealized gain of \$4,801,000 in 2008 and an unrealized gain of \$1,841,000 in 2007.

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

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

**Other Assets**

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

**Capital Assets**

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 39 years. Depreciation expense was \$13,338,000 and \$12,937,000 for the years ended March 31, 2008 and 2007, 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. Approximately \$1,325,000 of unspent proceeds from the 2003 bond issuance remained at March 31, 2007. This portion of the debt has been excluded from this component of net assets for that year.
- 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.
- 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."

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

Notes to Basic Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**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 operating income; all peripheral transactions are reported as a nonoperating revenue and expense. Operating expenses are all expenses incurred to provide health services, other than financing costs.

**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.

Net patient service revenue is reported at the estimated net realizable amounts 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.

**Accounts Receivable**

The Hospital provides credit in the normal course of operations to patients located primarily in southeast Louisiana and to insurance companies conducting operations in this area.

The Hospital maintains allowances for contractual adjustments, doubtful accounts, and charity care based on management's assessment of collectibility, current economic conditions, and prior experience. The Hospital determines if patient accounts receivable are past-due based on the discharge date; however, the Hospital does not charge interest on past-due accounts. The Hospital charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

**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 (see footnote #12).

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

Notes to Basic Financial Statements

**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.

**Professional Liability Claims**

The provision for estimated malpractice claims included estimates of the ultimate cost for both reported claims and claims incurred but not reported. The Hospital has not experienced material losses from professional liability claims in the past.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP 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.

**Compensated Absences**

The Hospital's employees earn vacation days at varying rates depending on years of service. Generally, any days not used by the employee's anniversary date expire. Employees also earn sick leave benefits; however, sick leave does not vest and is not accrued.

**Reclassifications**

Certain amounts on the March 31, 2007 financial statements have been reclassified to conform with the March 31, 2008 financial statement presentation.

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

Notes to Basic Financial Statements

**2. Designated Cash and Investments**

The composition of designated cash and investments at March 31, 2008 and 2007, is set forth below:

	March 31, 2008		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 19,277	\$ 128,278	\$ 147,555
1998 bond issue:			
Interest expense fund	1,237	-	1,237
Principal fund	1,250	-	1,250
Total 1998 bond issue	2,487	-	2,487
2003 supplemental bond issue:			
Interest expense fund	655	-	655
Principal fund	80	-	80
Total 2003 supplemental bond issue	735	-	735
Total designated cash and investments	\$ 22,499	\$ 128,278	\$ 150,777
	March 31, 2007		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 11,595	\$ 114,096	\$ 125,691
1998 bond issue:			
Interest expense fund	1,276	-	1,276
Principal fund	1,195	-	1,195
Total 1998 bond issue	2,471	-	2,471
2003 supplemental bond issue:			
Interest expense fund	656	-	656
Principal fund	75	-	75
Construction fund	1,325	-	1,325
Total 2003 supplemental bond issue	2,056	-	2,056
Total designated cash and investments	\$ 16,122	\$ 114,096	\$ 130,218

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

Notes to Basic Financial Statements

2. Designated Cash and Investments (continued)

**Investment Income**

The composition of investment income on designated cash and investments is set forth below:

	March 31, 2008		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 442	\$ 6,035	\$ 6,477
1998 bond issue:			
Interest expense fund	20	-	20
Principal fund	20	-	20
Total 1998 bond issue	40	-	40
2003 supplemental bond issue:			
Interest expense fund	11	-	11
Principal fund	1	-	1
Construction fund	47	-	47
Total 2003 supplemental bond issue	59	-	59
Total designated cash and investments	\$ 541	\$ 6,035	\$ 6,576

	March 31, 2007		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 192	\$ 5,012	\$ 5,204
1998 bond issue:			
Interest expense fund	29	-	29
Principal fund	28	-	28
Total 1998 bond issue	57	-	57
2003 supplemental bond issue:			
Interest expense fund	15	-	15
Principal fund	1	-	1
Construction fund	165	-	165
Total 2003 supplemental bond issue	181	-	181
Total designated cash and investments	\$ 430	\$ 5,012	\$ 5,442



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

Notes to Basic Financial Statements

**2. Designated Cash and Investments (continued)**

Louisiana state statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. Due to these restrictions, the Hospital does not have a formal policy that limits the types of investments. During the years ended March 31, 2008 and 2007, the Hospital invested primarily in securities issued by the U.S. Treasury and other federal agencies.

**Credit Risk – Investments**

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The Hospital had investments in obligations of the U.S. government or explicitly guaranteed by the U.S. government with a fair value of \$128,278,000 at March 31, 2008.

**Concentration of Credit Risk**

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement.

**Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of March 31, 2008, \$18,061,000 of the Hospital's bank balance of \$18,577,000 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution.

**Custodial Credit Risk – Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of March 31, 2008, the Hospital was not exposed to custodial credit risk for its investments as all were registered in the name of the Hospital.

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

Notes to Basic Financial Statements

**2. Designated Cash and Investments (continued)**

**Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of March 31, 2008.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		(In Thousands)		
U.S. Treasuries	\$ 12,081	\$ -	\$ 7,978	\$ 4,103
Federal National Mortgage Association	34,791	2,060	4,726	28,005
Federal Home Loan Bank	16,162	1,005	6,738	8,419
Federal Home Loan Mortgage Corporation	27,038	2,840	2,096	22,102
Federal Farm Credit Banks	4,105	-	889	3,216
Government National Mortgage Association	8,778	2	22	8,754
Small Business Association	13,636	75	1,276	12,285
U.S. Department of Housing and Urban Development	2,073	-	1,274	799
Securities guaranteed by the U.S. Government	9,614	-	1,100	8,514
	<u>\$ 128,278</u>	<u>\$ 5,982</u>	<u>\$ 26,099</u>	<u>\$ 96,197</u>

The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of March 31, 2007.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		(In Thousands)		
U.S. Treasuries	\$ 19,073	\$ 627	\$ 12,669	\$ 5,777
Federal National Mortgage Association	28,205	2,171	4,031	22,003
Federal Home Loan Bank	10,399	1,190	7,940	1,269
Federal Home Loan Mortgage Corporation	24,322	1,788	6,868	15,666
Federal Farm Credit Banks	1,378	-	373	1,005
Government National Mortgage Association	7,452	3	73	7,376
Small Business Association	12,446	-	1,874	10,572
U.S. Department of Housing and Urban Development	2,432	995	697	740
Securities guaranteed by the U.S. Government	8,389	-	840	7,549
	<u>\$ 114,096</u>	<u>\$ 6,774</u>	<u>\$ 35,365</u>	<u>\$ 71,957</u>

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

Notes to Basic Financial Statements

**3. Capital Assets**

The Hospital's investment in capital assets consisted of the following as of March 31, 2008:

	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Retirements/ Transfers</b>	<b>Ending Balance</b>
	<i>(in thousands)</i>			
Land and land improvements	\$ 21,250	\$ 254	\$ -	\$ 21,504
Buildings	130,340	3,641	(172)	133,809
Equipment	117,949	10,770	(844)	127,875
Construction-in-progress	4,850	8,447	(11,419)	1,878
	<u>274,389</u>	<u>23,112</u>	<u>(12,435)</u>	<u>285,066</u>
Accumulated Depreciation				
Land improvements	3,340	399	-	3,739
Buildings	48,075	4,350	(81)	52,344
Equipment	85,488	8,589	(802)	93,275
	<u>136,903</u>	<u>13,338</u>	<u>(883)</u>	<u>149,358</u>
Capital assets	<u>\$137,486</u>	<u>\$9,774</u>	<u>(\$11,552)</u>	<u>\$135,708</u>

The Hospital's investment in capital assets consisted of the following as of March 31, 2007:

	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Retirements/ Transfers</b>	<b>Ending Balance</b>
	<i>(in thousands)</i>			
Land and land improvements	\$ 19,783	\$ 1,469	\$ (2)	\$ 21,250
Buildings	111,464	18,876	-	130,340
Equipment	109,375	9,348	(774)	117,949
Construction-in-progress	21,935	9,612	(26,697)	4,850
	<u>262,557</u>	<u>39,305</u>	<u>(27,473)</u>	<u>274,389</u>
Accumulated Depreciation				
Land improvements	2,965	376	(1)	3,340
Buildings	43,924	4,151	-	48,075
Equipment	77,806	8,410	(728)	85,488
	<u>124,695</u>	<u>12,937</u>	<u>(729)</u>	<u>136,903</u>
Capital assets	<u>\$137,862</u>	<u>\$26,368</u>	<u>(\$26,744)</u>	<u>\$137,486</u>

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

Notes to Basic Financial Statements

**4. Debt**

The following table summarizes the Hospital's outstanding debt:

	March 31	
	<u>2008</u>	<u>2007</u>
	<i>(in thousands)</i>	
Hospital Revenue Bonds, Series 2003, 2.0% to 5.25% \$	24,780	\$ 24,855
Hospital Revenue Bonds, Series 1998, 4.5% to 5.4%	46,460	47,655
	<u>71,240</u>	<u>72,510</u>
Less unamortized discount	647	708
	<u>70,593</u>	<u>71,802</u>
Less amounts due within one year	1,330	1,270
Long-term portion of debt	<u>\$ 69,263</u>	<u>\$ 70,532</u>

The 1998 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of 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 of 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, beginning in 2030 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.

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

Notes to Basic Financial Statements

**4. Debt (continued)**

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

	Principal	Interest
2009	\$ 1,330	\$ 3,740
2010	1,395	3,675
2011	1,460	3,606
2012	1,535	3,532
2013	1,615	3,453
2014 - 2018	9,460	15,879
2019 - 2023	12,340	12,998
2024 - 2028	16,130	9,207
2029 - 2033	21,040	4,304
2034	4,935	136
Total	<u>\$ 71,240</u>	<u>\$ 60,530</u>

The Hospital was in compliance with all covenants of its outstanding bond issues at March 31, 2008 and 2007.

**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:

	2008	2007
Medicare	42.77%	40.54%
Medicaid	3.97%	5.19%

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

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

Notes to Basic Financial Statements

**5. Third-Party Payor Arrangements (continued)**

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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase to net patient service revenue of \$6,748,000 in 2008 and an increase to net patient service revenue of \$4,784,000 in 2007. Estimated settlements through March 31, 2006, for the Medicare and Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. 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:

	Years Ended March 31	
	2008	2007
	<i>(in thousands)</i>	
Total gross patient service charges, excluding charity care \$	442,304	\$ 429,189
Contractual and other allowances:		
Medicare	154,594	152,161
Medicaid	45,932	44,715
Managed care organizations	67,337	60,472
Other	11,780	7,643
Provisions for bad debts	6,425	8,625
Total contractual and other allowances	286,068	273,616
Net patient services revenue	\$ 156,236	\$ 155,573

**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 \$2,055,000 in 2008 and \$2,091,000 in 2007.

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

Notes to Basic Financial Statements

**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-occurrence 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 \$400,000 per claim and for employee health insurance up to \$160,000 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. Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2008 and 2007 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
2008	\$ 4,903	7,886	9,065	3,724
2007	\$ 4,881	10,999	10,977	4,903

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.

**9. Deferred Compensation Agreements**

The Hospital has entered into deferred compensation agreements with certain key employees. The deferred compensation agreements are funded by life insurance policies. The Hospital expects these policies to cover all future payments under the deferred compensation agreements. All policies were purchased by June 1995.

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

Notes to Basic Financial Statements

**10. Leases**

The Hospital leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease at March 31, 2008, consisted of buildings and improvements including fixed equipment with original costs of \$ 28,520,166. Accumulated depreciation of the leased assets totaled \$ 9,779,444 at March 31, 2008.

The future minimum lease payments to be received from these leases during the next five years are as follows:

<u>Year ending</u> <u>March 31st</u>	<u>Amount</u>
2009	\$ 1,770,668
2010	1,206,249
2011	917,174
2012	629,031

**11. Subsequent events**

The Hospital has signed a contract with a major software vendor to purchase upgrades and additional modules for the Hospital's business and clinical information systems. The detailed terms of this agreement are proprietary; however, they will result in a significant upgrade to these information systems over five years at an estimated cost of \$2,512,000 for related software, installation and training.



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

Notes to Basic Financial Statements

**12. Community Benefits (Unaudited)**

The Hospital is an active and caring member of the community. Its mission of providing and improving medical care in the region as well as its participation in community activities is a long standing tradition of service provided to benefit the broader community.

The Hospital has served the community during the years ended March 31, 2008 and 2007, as follows:

	2008	2007
	(in thousands)	
Care for the indigent:		
Traditional charity care (in charges)	\$ 2,533	\$ 1,884
Self Pay discounts (in charges)	2,329	2,191
Unreimbursed Costs of Medicaid Program	4,166	4,407
Benefits for Community and Region:		
Unpaid cost of Federally Funded programs	10,979	7,837
Community Health Services	879	1,151
Community Building Activities	124	74
Community Benefit Operations	256	347
Health Professions Education	180	180
Subsidized Health Services	1,009	817
Financial Contributions	198	154
Research	16	55
Total quantifiable benefits for the Community	13,641	10,615
Total quantifiable Community Benefits	\$ 22,669	\$ 19,097

The amount reported as care 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, and health clinics and screenings, all of which benefit the broader community.

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**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,  
STATE OF LOUISIANA**

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**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**MARCH 31, 2008**

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

The Board of Commissioners  
Hospital Service District No. 1 Terrebonne Parish,  
State of Louisiana  
Terrebonne General Medical Center:

We have audited the financial statements of the 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, 2008, and have issued our report thereon dated August 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control efficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, federal and state awarding agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Pastlithwaite, Netterville*

Baton Rouge, Louisiana  
August 5, 2008