Iberia Medical Center

September 30, 1999

Audited Financial Statements

Report on Compliance and on Internal Control Over Financial Reporting

Letter of Recommendations

Financial Statements

Iberia Medical Center

Year ended September 30, 1999
with Report of Independent Auditors

Iberia Medical Center

Financial Statements

Year ended September 30, 1999

Contents

ERNST & YOUNG LLP

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of the
Parish of Iberia, State of Louisiana

We have audited the accompanying balance sheet of Iberia Medical Center (Hospital Service District No. 1 of Iberia Parish, State of Louisiana) as of September 30, 1999, and the related statements of operations, changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides 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 Iberia Medical Center as of September 30, 1999, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 21 is not a required part of the basic financial statements but is supplementary information required by the 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 Medical Center has become year 2000 compliant, the Medical Center's year 2000 remediation efforts were successful in whole or in part, or that parties with which the Medical Center does business have become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2000 on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

January 26, 2000

Iberia Medical Center

Balance Sheet

September 30, 1999

Assets		
Current assets:		
Cash and cash equivalents	$	660,671
Assets limited as to use		935,105
Patient accounts receivable, less allowance for doubtful accounts of $2,595,253		6,208,509
Other receivables		99,201
Inventories		1,120,032
Prepaid expenses		89,806
Total current assets		9,113,324
Assets limited as to use		4,612,190
Property and equipment, net		23,125,919
Other assets		240,807
Bond issuance costs, net		423,597
Total assets	$	37,515,837
Liabilities and fund balance		
Current liabilities:		
Accounts payable	$	4,747,168
Accrued expenses		1,384,757
Due to third-party payors		1,616,997
Accrued interest payable		470,153
Current installments of long-term debt		698,024
Notes payable to banks		500,000
Total current liabilities		9,417,099
Amount due to Iberia Parish		1,000,000
Long-term debt, excluding current installments		18,363,228
Total liabilities		28,780,327
Fund balance		8,735,510
Total liabilities and fund balance	$	37,515,837

See accompanying notes.

Iberia Medical Center

Statement of Operations

Year ended September 30, 1999

Net patient service revenue	$31,918,937
Other revenue	356,434
Total revenue	32,275,371
Operating expenses:	
Salaries, wages and benefits	14,363,141
Supplies and other expenses	12,294,288
Depreciation and amortization	2,139,401
Interest expense	1,335,848
Provision for doubtful accounts	3,613,971
Total expenses	33,746,649
Loss from operations	(1,471,278)
Nonoperating gains, net	155,618
Expenses in excess of revenue and gains	$ (1,315,660)

See accompanying notes.

Iberia Medical Center

Statement of Changes in Fund Balance

Balance at October 1, 1998, as previously reported	$ 10,833,932
Less prior period adjustment	(782,762)
Balance at October 1, 1998, as adjusted	10,051,170
Expenses in excess of revenue and gains	(1,315,660)
Balance at September 30, 1999	$ 8,735,510

See accompanying notes.

Iberia Medical Center

Statement of Cash Flows

Year ended September 30, 1999

Operating activities	
Loss from operations	$ (1,471,278)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation and amortization	2,139,401
Loss on sales of equipment	20,247
Interest received	(155,222)
Interest payments	1,349,818
Changes in operating assets and liabilities:	
Patient receivables, net	(496,255)
Other receivables	4,320
Prepaid expenses	(75,988)
Inventories	206,009
Amounts due to/from third-party payors	963,997
Accounts payable and other accrued expenses	916,069
Net cash provided by operating activities	3,401,118
Noncapital financing activities	
Other nonoperating income received	147,807
Net cash provided by noncapital financial activities	*147,807*
Capital and related financing activities	
Purchases of property, plant and equipment	(2,505,149)
Proceeds from sales of property, plant and equipment	459,184
Transfer from Iberia Parish Government	1,000,000
Proceeds from the issuance of debt	500,000
Decrease in notes payable to banks	(1,000,000)
Principal payments on debt incurred for capital purposes	(558,795)
Principal payments on capital lease obligations	(172,500)
Interest payments on debt and capital lease obligations	(1,399,488)
Net cash used in capital and related financing activities	(3,676,748)
Investing activities	
Interest received on investments	163,032
Increase in assets limited as to use	(27,741)
Investments in joint ventures	(240,807)
Net cash used in investing activities	(105,516)
Net decrease in cash and cash equivalents	(233,339)
Cash and cash equivalents at beginning of year	4,547,461
Cash and cash equivalents at end of year	$ 4,314,122
Reconciliation of cash and cash equivalents to the balance sheet:	
Cash and cash equivalents in current assets	$ 660,671
Cash and cash equivalents in assets limited as to use:	
By board for capital improvements	1,178,649
Held by trustee under bond indenture	2,097,359
Under self-insurance trust arrangements	377,443
	$ 4,314,122

See accompanying notes.

Iberia Medical Center

Notes to Financial Statements

September 30, 1999

1. Organization and Significant Accounting Policies

Organization

Iberia Medical Center (the Medical Center) is a 130-bed acute-care hospital with related outpatient care facilities principally located in New Iberia, Louisiana. The Medical Center operates under the jurisdiction of the Iberia Parish Council of Iberia Parish, Louisiana (the Parish) as Iberia Parish Hospital Service District No. 1, and is a component unit of the Parish as defined by Statement of Governmental Accounting Standards (SGAS) No. 14, *The Financial Reporting Entity*. The Medical Center's component unit relationship to the Parish is principally due to the Medical Center's financial accountability to the Parish as defined in SGAS No. 14. The Medical Center is operated by a nine-member board of commissioners, all of whom are appointed by the Iberia Parish Council.

Basis of Accounting

The Medical Center 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 Medical Center has elected to apply the provisions of all relevant Financial Accounting Standards Board (FASB) pronouncements, including those 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.

Cash Equivalents

Cash equivalents include investments in highly liquid investments with maturities of three months or less when purchased.

1. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include:

- assets set aside by the Medical Center's board of commissioners for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes;
- assets held by bond trustees under related indenture agreements; and
- assets held under self-insurance trust arrangements.

Investments and Investment Income

During the year ended September 30, 1999, the Medical Center 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, based on quoted market price. Changes in the fair value of investments are included in investment income. The effect of adopting the new statement was immaterial.

Investment income from unrestricted and board-designated investments is reported as nonoperating gain. Investment income from trusteed investments held under a related bond indenture is reported as other revenue.

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, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted as final settlements are determined.

Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or replacement market.

1. Organization and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value at date of receipt. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the equipment and is included in depreciation and amortization expense.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized, net of income earned on related trusteed assets, as a component of the cost of acquiring those assets. Net interest expense of approximately $121,000 was capitalized during 1999.

Unamortized Bond Issuance Costs

Bond issuance costs have been deferred and are being amortized using the interest method over the period the related bonds will remain outstanding.

Charity Care

The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Income Taxes

As a political subdivision, the Medical Center qualifies as tax-exempt under existing provisions of the Internal Revenue Code and its income is not generally subject to federal or state income taxes.

Medicare and Medicaid Reimbursement Program

The Medical Center 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

1. Organization and Significant Accounting Policies (continued)

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 Medical Center 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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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. Changes in Medicare and Medicaid programs and reductions in funding could have an adverse impact on the Medical Center.

Operating and Nonoperating Revenue

The Medical Center's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Iberia Parish and the surrounding communities. As such, activities related to the ongoing operations of the Medical Center 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 Medical Center. Investment income, gains and losses not directly related to the ongoing operations of the Medical Center or that occur infrequently, and gifts, grants and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

2. Working Capital and Liquidity

The Medical Center experienced a deterioration in working capital during the year ended September 30, 1999. Management has initiatives underway to improve working capital and increase cash flow. Management believes the Medical Center will have sufficient cash flow to fund operating expenditures and meet all debt service requirements during fiscal 2000.

3. Net Patient Service Revenue

Net patient service revenue for 1999 was comprised of the following:

Total patient service charges (excluding charity care of $262,000)	$ 63,762,695
Contractual and other allowances:	
Medicaid	6,369,362
Medicare	16,803,764
Managed care organizations	7,875,599
Other	794,933
Total contractual and other allowances	31,843,658
Net patient service revenue	$ 31,918,937

The Medical Center participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the year ended September 30, 1999, approximately 68% of the Medical Center's patient service charges were related to services provided to Medicare and Medicaid program beneficiaries.

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. Settlements for the years ended through September 30, 1996 for the Medicare and Medicaid programs have been reviewed by program representatives and adjustments have been recorded to correct for changes required in previous estimates. These adjustments resulted in a decrease to net patient service revenue of approximately $470,000 for the year ended September 30, 1999.

3. Net Patient Service Revenue (continued)

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

4. Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, approximated $262,000 in 1999.

The Medical Center provides four full-time nurses at the Parish Criminal Justice Facility for medical assistance to the individuals in the facility. The Medical Center does not maintain records to identify and monitor the level of charity care it provides under this program; however, the total cost of providing this service approximated $139,000 in 1999.

5. Prior Period Adjustments

Fund balance at October 1, 1998, as previously reported, has been restated to correct for the effects of certain errors related to the overstatement of capitalized interest, the understatement of accrued employee health insurance claims, and the understatement of other assets. The effect of the adjustments was to decrease fund balance as of October 1, 1998 by $782,762.

6. Cash and Investments

Governmental accounting standards require that the carrying amounts of cash and investments as of the balance sheet date be categorized according to the level of credit risk associated with the Medical Center's cash and investments at that time. The level of credit risk is defined as follows:

Category 1 - Insured (including government securities), registered or collateralized with securities held by the Medical Center or its agent in the Medical Center's name.

6. Cash and Investments (continued)

Category 2 - Uninsured and unregistered, collateralized with securities held by the counter-party's trust department or agent in the Medical Center's name.

Category 3 - Uncollateralized, including balances collateralized with securities held by the pledging financial institution.

A summary of cash and investments at September 30, 1999 follows:

	Category			
	1	2	3	Total
Cash and cash equivalents	$ 200,776	$ 459,895	$ –	$ 660,671
Board-designated for capital improvements:				
Cash and cash equivalents	$ 200,000	$ 978,649	$ –	$ 1,178,649
Held by trustee under bond indenture:				
Cash and cash equivalents	260,646	–	1,836,713	2,097,359
U. S. Treasury Notes	1,893,844	–	–	1,893,844
	2,154,490	–	1,836,713	3,991,203
Held under self-insurance trust arrangements:				
Cash and cash equivalents	–	377,443	–	377,443
Total assets limited as to use	$ 2,354,490	$ 1,356,092	$ 1,836,713	$ 5,547,295

The Medical Center's U. S. Treasury Notes mature seven to nine years from September 30, 1999.

Trusteed bond funds were established in accordance with the requirements of the indentures related to the Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds.

6. Cash and Investments (continued)

A summary of the various trusteed funds at September 30, 1999 follows:

Debt service reserve funds	$ 2,155,008
Principal and interest funds	642,904
Project fund	23
Depreciation reserve fund	1,193,268
	3,991,203
Less deposits classified as current assets	935,105
	$ 3,056,098

The debt service reserve funds are generally equal to the maximum annual principal and interest requirements (as defined) for the bonds. Amounts in the principal and interest funds are used for the annual debt service of the bonds. The project fund is to be used to pay certain costs of construction and renovation projects at the Medical Center. The depreciation reserve fund is to be used for additions, improvements and replacements necessary to operate the Medical Center. Deposits classified as current assets represent funds to be used to pay debt service amounts classified as current liabilities at September 30.

7. Business and Credit Concentrations

The Medical Center grants credit to patients, substantially all of whom are local area residents. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross Blue Shield of Louisiana and commercial insurance policies).

7. Business and Credit Concentrations (continued)

The mix of gross receivables from patients and third-party payors for 1999 follows:

Patients	34%
Medicare	30
Other third-party payors	18
Commercial	6
Medicaid	6
Blue Cross Blue Shield of Louisiana	6
	100%

8. Property and Equipment

A summary of property and equipment at September 30, 1999 follows:

Land and improvements	$ 1,380,089
Building and improvements	22,137,789
Fixed equipment	4,382,800
Major movable equipment	17,452,456
Construction in progress	265,182
	45,618,316
Less accumulated depreciation and amortization	22,492,397
	$23,125,919

Construction in progress is principally comprised of expenditures related to construction of a medical office building and enhancements to information technology systems. At September 30, 1999, estimates of costs to complete these projects were approximately $355,000 and the projects are scheduled for substantial completion during 2000.

Equipment under capital lease obligation totaling approximately $2,082,000 is included in major movable equipment at September 30, 1999. Related accumulated amortization was approximately $1,126,000 at September 30, 1999.

9. Long-Term Debt

A summary of long-term debt, including capital lease obligations, at September 30, 1999 follows:

Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1979, payable in semiannual installments, including interest at 6%, through November 2009	$ 3,144,119
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1980, payable in semiannual installments, including interest at 6%, through May 2010	3,197,000
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1996, payable in semiannual installments, including interest at rates from 7.5% to 8%, through May 2010	11,775,000
Capital lease obligations, payable in various monthly installments through September 2008, including interest at rates from 6.5% to 7.9%.	945,133
	19,061,252
Less current installments	698,024
Long-term debt, excluding current installments	$ 18,363,228

Under the terms of related revenue bond indentures, the Medical Center is required to maintain certain deposits with a trustee. The indentures also place limits on the occurrence of additional borrowings, requires the maintenance of a minimum debt service coverage ratio and days cash on hand requirement. The Medical Center was in compliance with these covenants for the year ended September 30, 1999.

The hospital revenue bonds are secured by the net revenues (as defined) of the Medical Center and the trusteed funds.

9. Long-Term Debt (continued)

Future maturities of long-term debt and payments on capital lease obligations are as follows:

	Long-Term Debt	Capital Lease Obligations
2000	$ 593,571	$ 171,708
2001	635,125	161,775
2002	678,505	129,602
2003	722,761	129,602
2004	764,956	129,601
Thereafter	14,721,201	512,172
	$ 18,116,119	1,234,460
Less amounts representing interest on capital lease obligations		289,327
		$ 945,133

At September 30, 1999, the Medical Center had an available line of credit with a commercial bank for $500,000 at an interest rate of 7.3%. The outstanding balance at September 30, 1999 totaled $500,000. The line of credit is renewable in yearly installments on March 1, 2000.

10. Asset Transfer from Iberia Parish

In August 1999, the Parish transferred certificates of deposit totaling $1,000,000 to the Medical Center. The amount due to the Parish is reflected as a long-term liability at September 30, 1999. The funds are invested in certificates of deposit and included in assets limited as to use at September 30, 1999. The terms of the transfer stipulate that interest earned on the these certificates of deposit will be paid to the Parish.

11. Pension Plan

The Medical Center contributes to the Parochial Employees Retirement System of Louisiana (the System), a cost-sharing multiple-employer defined benefit pension plan. The System is comprised of two district plans, Plan A and Plan B, with separate assets and benefit provisions. Employees of the Medical Center are members of Plan A. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Louisiana Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information.

System members are required to contribute 9.5% of their annual covered salary and the Medical Center is required to contribute at an actuarially determined rate. The current rate is 7.75% of annual covered payroll. The Medical Center's contributions to the System for the year ended September 30, 1999 was $808,472 and was equal to the required contributions for each year.

12. Contingencies

Like many other businesses, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and professional and general liability claims and judgments. Commercial insurance coverage, as well as other coverages described below, are available for claims arising from such matters. Claims settled through September 30, 1999 have not exceeded these coverage in any of the three preceding years.

As of September 30, 1999, there was certain litigation pending against the Medical Center. The Louisiana Hospital Association Trust Fund covers the Medical Center for the first $100,000 of liability, while an additional $400,000 of coverage is provided through the State of Louisiana Patients' Compensation Fund. A recent court case affirmed the constitutionality of this $500,000 limit.

The Medical Center is self-insured for employee health coverage, up to a limit of $50,000 per individual claim. Substantial coverage with a third-party carrier is maintained for excess losses.

12. Contingencies (continued)

Certain of the Medical Center's insurance coverages discussed above are provided under claims-made policies. Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during their term, but reported subsequently, would be uninsured. Management anticipates that such coverages will be renewed or replaced with equivalent insurance as the Medical Center's current coverages expire.

The Medical Center has tentatively agreed to settle a matter with the Office of Inspector General of the U. S. Department of Health and Human Services that involved errors related to Medicare reimbursements received during the period from 1992 through 1995. The Medical Center has accrued this settlement amount of approximately $300,000.

13. Operating Leases

The Medical Center leases office space and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging from month-to-month up to five years. The future minimum lease payments to be received from these leases follow:

2000	$ 200,569
2001	165,945
2002	158,245
2003	157,945
2004	52,286
	$ 734,990

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through May 2002. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

2000	$ 227,312
2001	215,029
2002	208,949
	$ 651,290

Rental expense for operating leases was approximately $456,000 in 1999.

14. Management Contract

The Medical Center has an agreement with Brim Healthcare, Inc. (Brim) under which Brim provides management services, including key personnel, to the Medical Center. The agreement, which expires in November 2001, can be extended through November 2003. Total fees paid to Brim were approximately $415,000 for the year ended September 30, 1999.

Additionally, the Medical Center has an agreement with Servicemaster Management Services, Inc. (SMS), under which SMS provides management services for the housekeeping, plant operations, and maintenance departments. Total fees paid to SMS were $98,135 for the year ended September 30, 1999.

15. Year 2000 Issue

On March 29, 1999, the Government Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, *Disclosures about Year 2000 Issues—An Amendment of Technical Bulletin 98-1*. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. The Medical Center elected to apply TB 99-1's option to present the year 2000 disclosures as required supplementary information in the 1999 financial statements.

Iberia Medical Center

Required Year 2000 Supplementary Information (Unaudited)

September 30, 1999

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Medical Center'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 Medical Center substantially completed all planned work to address the Year 2000 issue prior to January 1, 2000. The planned work covered three primary areas: principal information technology hardware and software operating systems; embedded systems within clinical equipment and the like; and the ability of vendors and third-party payors to themselves effectively manage the Year 2000 issue within their own organizations.

Management is not aware of any significant adverse effects of the Year 2000 issue on the Medical Center's systems or operations. However, there is no guarantee that all systems, equipment, or other entities with the ability to significantly impact the Medical Center's operations are Year 2000 compliant.

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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. 1 of the
Parish of Iberia, State of Louisiana

We have audited the financial statements of Iberia Medical Center (Hospital Service District No. 1 of the Parish of Iberia, State of Louisiana) (the Medical Center) as of and for the year ended September 30, 1999, and have issued our report thereon dated February 23, 2000. 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 Medical Center'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.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center'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 Medical Center in a separate report dated February 23, 2000.

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

February 23, 2000

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The Board of Commissioners
Iberia Parish Hospital Service District No. 1

In planning and performing our audit of the financial statements of Iberia Parish Hospital Service District No. 1 (Medical Center) for the year ended September 30, 1999, 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.

The following are areas for which a significant audit adjustment related to the current year was recorded.

Adequacy of the Allowance for Doubtful Accounts

Currently, the Medical Center has a methodology in which the accounts receivable and the related allowances are reviewed and analyzed monthly. However, this methodology is not reviewed on a periodic basis to ensure that it results in an estimate of the allowance that appropriately considers the collectibility of the accounts receivable.

Management has recently modified the bad debt policy monitoring accounts receivable balances and identifying potential collection problems. The effects of these policy changes should be formally evaluated on a monthly basis to determine their effectiveness.

Also, adding additional evaluation criteria such as aging by payor type, historical results, write-offs by revenue class, etc. would help ensure that the various factors affecting collectibility are analyzed and that the allowance is reasonable and supportable.

Third-Party Accounting

The Medical Center currently accounts for differences between standard charges and expected interim payments at the time of billing. Differences between interim payments and final reimbursement on cost-based programs are generally accounted for annually, concurrent with the preparation of the Medical Center's Medicare and Medicaid cost reports.

In order to improve the accuracy of interim financial reporting and reduce the possibility of unexpected results at year end, we recommend the Medical Center enhance its procedures for third-party accounting through a combination of interim cost report preparation and additional settlement analysis performed on a quarterly basis as well as a refinement of the model used to estimate the allowance for contractual discounts.

Interim Financial Reporting

The Medical Center's interim financial statements are used extensively by management and the board of commissioners to make management and operating decisions. Accordingly, it is important that the interim financial statements reflect a fair presentation of interim results and incorporate all necessary adjustments. Significant adjustments were recorded to the year-end financial statements as a result of the audit process.

It is imperative that the Medical Center improve its interim accounting processes. Specifically, two of the more significant areas that should be focused on include the allowance for bad debts and the third-party accounts as discussed above. Improvements in these two areas should greatly enhance the accuracy of the interim financial reporting.

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

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

Ernst + Young LLP

February 23, 2000

IBERIA MEDICAL CENTER

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March 15, 2000

Daniel G. Kyle, Ph.D.
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle,

This letter addresses the findings made by Ernst & Young, LLP, regarding the 1999 fiscal audit of Iberia Medical Center.

Adequacy of the Allowance for Doubtful Accounts
Iberia Medical Center has revised the methodology in which the allowance account is reviewed and analyzed on a monthly basis. The methodology will be reviewed on a quarterly basis and compared to actual collections to determine that the allowance is adequate. Several modifications have been made in the Health Information System to assist in determining the adequacy of the allowance account.

Third-Party Accounting
Iberia Medical Center plans to prepare an interim cost report after six (6) months of operations. If there is a need, a cost report will be prepared on a quarterly basis. On a quarterly basis, contractual adjustments will be reviewed to determine the adequacy of the contractual allowances. Additional reports are being created in-house to enhance the monthly estimate for contractual allowances.

Interim Financial Reporting
Iberia Medical Center strives to accurately report interim financial statements. By revising the processes for the allowance for bad debt and the third party accounts, the interim financial statements should accurately reflect the financial condition of the Medical Center at that point in time.

Please contact me if you have any further questions or if you are in need of additional information.

Sincerely,

Isaac S. Coe

Isaac S. Coe
President

ISC/bb