KPMG

IBERIA MEDICAL CENTER

Financial Statements and Schedules

September 30, 1998 and 1997

(With Independent Auditors' Report Thereon)

INDEX

KPMG Peat Marwick LLP

Suite 1100
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188 East Capitol Street
Jackson, MS 39201

Independent Auditors' Report

The Board of Commissioners
Iberia Medical Center:

We have audited the accompanying balance sheets of Iberia Medical Center (a component unit of Iberia Parish, Louisiana) as of September 30, 1998 and 1997, and the related statements of operations, changes in fund balance and cash flows for the years 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 audits.

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

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 issue. The Hospital has included such disclosures in note 13 to the accompanying financial statements. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Medical Center's disclosure in note 13 with respect to the Year 2000 issue. Further, we do not provide assurance that the Medical Center is, or will be, Year 2000 ready, that the Medical Center's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Medical Center does business will be Year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of Iberia Medical Center as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 1999 on our consideration of the Medical Center's internal control and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

February 18, 1999

IBERIA MEDICAL CENTER

Balance Sheets

September 30, 1998 and 1997

Assets	**1998**	**1997**
Current assets:		
Cash and cash equivalents (note 7)	$ 2,138,351	4,012,408
Assets limited as to use (notes 7 and 8)	704,136	718,395
Patient accounts receivable, less allowance for doubtful accounts of $2,180,000 in 1998 and $1,381,000 in 1997 (note 4 and 10)	5,712,254	9,882,840
Other receivables	103,521	155,398
Inventories	1,326,041	1,129,668
Prepaid expenses	13,818	77,228
Total current assets	9,998,121	15,975,937
Assets limited as to use (notes 7 and 8)	3,599,858	6,115,121
Property and equipment, net (note 5)	23,868,699	18,476,209
Bond issuance costs, net	447,879	472,161
Total assets	$ 37,914,557	41,039,428
Liabilities and Fund Balance		
Current liabilities:		
Current installments of long-term debt (note 8)	$ 665,609	488,250
Notes payable to banks (note 8)	1,000,000	1,000,000
Accounts payable	3,652,104	3,222,318
Accrued salaries and related amounts	1,563,752	1,961,553
Accrued interest payable	484,123	544,049
Due to third party payors	653,000	—
Total current liabilities	8,018,588	7,216,170
Long-term debt, excluding current installments (note 8)	19,062,037	18,674,914
Fund balance	10,833,932	15,148,344
Commitments and contingencies (notes 2, 6, 8, 9, 11 and 12)		
Total liabilities and fund balance	$ 37,914,557	41,039,428

See accompanying notes to financial statements.

IBERIA MEDICAL CENTER

Statements of Operations

Years ended September 30, 1998 and 1997

	1998	1997
Net patient service revenue (notes 2 and 8)	$ 29,503,655	34,734,067
Other revenue	476,699	579,007
Total revenue	29,980,354	35,313,074
Operating expenses:		
Salaries, wages and benefits	16,154,281	16,119,703
Supplies and other expenses	11,531,024	12,917,516
Depreciation and amortization	2,015,156	1,819,194
Interest expense	636,891	1,006,114
Provision for doubtful accounts (note 4)	4,029,250	3,017,043
Total expenses	34,366,602	34,879,570
Income (loss) from operations	(4,386,248)	433,504
Nonoperating gains, net	71,836	127,810
Revenue and gains in excess of (less than) expenses and losses	$ (4,314,412)	561,314

See accompanying notes to financial statements.

IBERIA MEDICAL CENTER

Statements of Changes in Fund Balance

Years ended September 30, 1998 and 1997

	1998	1997
Balance at beginning of year	$ 15,148,344	14,587,030
Revenue and gains in excess of (less than) expenses and losses	(4,314,412)	561,314
Balance at end of year	$ 10,833,932	15,148,344

See accompanying notes to financial statements.

IBERIA MEDICAL CENTER

Statements of Cash Flows

Years ended September 30, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Income (loss) from operations	$ (4,386,248)	433,504
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	2,015,156	1,819,194
(Gain) loss on sale of equipment	18,296	(4,459)
Interest received	(287,387)	(378,192)
Interest payments	1,374,147	1,008,343
Changes in operating assets and liabilities:		
Patient receivables, net	4,170,586	(1,738,790)
Other receivables	51,877	(70,193)
Prepaid expenses	63,410	(4,002)
Inventories	(196,373)	(201,797)
Amounts due to/from third-party payors	653,000	700,000
Accounts payable and other accrued expenses	(27,941)	997,186
Net cash provided by operating activities	3,448,523	2,560,794
Cash flows from investing activities:		
Increase (decrease) in assets limited as to use	2,650,200	(4,545,084)
Interest received from investments	361,928	449,649
Other receipts	15,591	56,353
Net cash provided by (used in) investing activities	3,027,719	(4,039,082)
Cash flows from capital and related financing activities:		
Capital expenditures	(6,343,550)	(4,908,302)
Proceeds from issuance of debt	—	12,000,000
Payment of bond issuance costs	—	(459,821)
Debt service	(1,886,071)	(1,497,568)
Net cash provided by (used in) capital and related financing activities	(8,229,621)	5,134,309
Net increase (decrease) in cash and cash equivalents	(1,753,379)	3,656,021
Cash and cash equivalents at beginning of year	6,300,840	2,644,819
Cash and cash equivalents at end of year	$ 4,547,461	6,300,840
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	$ 2,138,351	4,012,408
Cash and cash equivalents in assets limited as to use:		
By board for capital improvements	1,431	113,632
Held by trustee under bond indenture	2,345,857	2,127,525
Under self-insurance trust arrangements	61,822	47,275
	$ 4,547,461	6,300,840

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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.

(a) Cash Equivalents

The Medical Center considers investments in highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(b) Inventories

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

(c) 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.

(d) Investments and Investment Income

The Medical Center has the positive intent and ability to hold all investments until maturity, and therefore such securities are classified as "held-to-maturity" and are stated at either cost or amortized cost, which approximates fair value. Investment income from unrestricted and board-designated investments is reported as nonoperating gain. Investment income from trusteed investments held under a related bond indenture, to the extent not capitalized, is reported as other revenue.

(Continued)

(e) *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 obligation is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the equipment.

(f) *Statement of Operations*

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(g) *Net Patient Service Revenue*

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

(h) *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.

(i) *Proprietary Fund Accounting*

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

(j) *Accounting Standards*

Pursuant to SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

(k) Costs of Borrowing

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

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 $765,000 and $360,000 was capitalized during 1998 and 1997, respectively.

(l) Income Taxes

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.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(n) Reclassifications

Certain reclassifications have been made in the 1997 financial statements to conform with the 1998 presentation.

(2) Net Patient Service Revenue

The Medical Center has agreements with governmental and other third-party payors that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain types of exempt inpatient services and outpatient services related to Medicare beneficiaries are paid based upon cost reimbursement methodologies. The Medical Center is paid for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. The Medical Center's cost reports have been audited and settled for all years through September 30, 1996.

On August 5, 1997 key legislative changes and policy updates of the Balanced Budget Act of 1997 (the BBA) were signed into law. The BBA implemented a number of spending reductions which negatively impact the Medical Center's Medicare reimbursement. Management has not quantified the specific impacts of the BBA.

- Medicaid - Inpatient services rendered to Medicaid program beneficiaries are generally paid at an all-inclusive per diem rate. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon cost reimbursement methodologies.

The composition of net patient service revenue follows:

	1998	1997
Gross patient service revenue	$ 56,095,718	58,472,250
Less provision for contractual adjustments	26,592,063	23,738,183
	$ 29,503,655	34,734,067

(3) 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, totaled approximately $290,000 in 1998 and $217,000 in 1997.

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 totaled approximately $135,000 in 1998 and $134,000 in 1997.

(4) Allowance for Doubtful Accounts

During fiscal 1998 the Medical Center changed its methodology for estimating the allowance for doubtful accounts. Had the methodology employed in 1997 been used in 1998, bad debt expense would have been approximately $1,000,000 lower in fiscal 1998.

(5) Property and Equipment

A summary of property and equipment follows:

	1998	1997
Land and improvements	$ 1,380,089	1,380,089
Building and improvements	14,747,792	13,691,102
Fixed equipment	4,382,800	4,382,800
Major movable equipment	16,437,126	14,849,391
Construction in progress	7,574,890	2,883,270
	44,522,697	37,186,652
Less accumulated depreciation and amortization	20,653,998	18,710,443
	$ 23,868,699	18,476,209

Construction in progress at September 30, 1998 is principally comprised of expenditures related to construction of a medical office building and enhancements to information technology systems. Estimated costs to complete these projects total approximately $1,721,000 at September 30, 1998, and the projects are scheduled for substantial completion during 1999.

Equipment under capital lease obligation totaling approximately $2,180,000 and $1,100,000 is included in major movable equipment at September 30, 1998 and 1997, respectively. Related accumulated amortization was approximately $994,000 and $887,000 at September 30, 1998 and 1997, respectively.

(6) 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 three years. The future minimum lease payments to be received from these leases follow:

1999	$ 116,831
2000	104,667
2001	67,242
2002	67,242
2003	67,242
	$ 423,224

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:

1999	$ 274,447
2000	269,764
2001	172,983
2002	12,159
	$ 729,353

Rental expense for operating leases was approximately $449,000 in 1998 and $404,000 in 1997.

(7) 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.

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 follows:

	Category 1	Category 2	Category 3	Total
September 30, 1998:				
Cash and cash equivalents	$ 203,672	1,934,679	—	2,138,351
Board-designated for capital improvements:				
Cash and cash equivalents	$ 1,431	—	—	1,431
Held by trustee under bond indenture:				
Cash and cash equivalents	98,569	—	2,247,288	2,345,857
U. S. Treasury notes	1,894,884	—	—	1,894,884
	1,993,453	—	2,247,288	4,240,741
Held under self-insurance trust arrangements:				
Cash and cash equivalents	—	61,822	—	61,822
Total assets limited as to use	$ 1,994,884	61,822	2,247,288	4,303,994

(Continued)

	Category 1	Category 2	Category 3	Total
September 30, 1997:				
Cash and cash equivalents	$ 301,365	3,711,043	—	4,012,408
Board-designated for capital improvements:				
Cash and cash equivalents	$ 100,000	13,632	—	113,632
Held by trustee under bond indenture:				
Cash and cash equivalents	—	—	2,127,525	2,127,525
U. S. Treasury notes	4,545,084	—	—	4,545,084
	4,545,084	—	2,127,525	6,672,609
Held under self-insurance trust arrangements:				
Cash and cash equivalents	—	47,275	—	47,275
Total assets limited as to use	$ 4,645,084	60,907	2,127,525	6,833,516

All of the Medical Center's held-to-maturity securities, totaling approximately $1,895,000 at September 30, 1998, mature after seven through nine years from September 30, 1998.

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 discussed in note 7.

A summary of the various trusteed funds follows:

	1998	1997
Debt service reserve funds	$ 2,037,061	1,908,321
Principal and interest funds	642,314	671,119
Project fund	413,795	2,936,171
Depreciation reserve fund	1,147,571	1,096,637
Cost of issuance fund	—	60,361
	4,240,741	6,672,609
Less deposits classified as current assets	642,314	671,119
	$ 3,598,427	6,001,490

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 depreciation reserve fund is to be used for additions, improvements and replacements necessary to operate the Medical Center. The project fund is to used to pay certain costs of construction and renovation projects at 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.

(8) Long-term Debt

A summary of long-term debt, including capital lease obligation, follows:

	1998	1997
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1979, payable in semi-annual installments, including interest at 6%, through November 2009	$ 3,353,914	3,551,666
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1980, payable in semi-annual installments, including interest at 6%, through May 2010	3,396,000	3,583,000
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1996, payable in semi-annual installments, including interest at rates from 7.5% to 8% through May 2016	11,925,000	12,000,000
Capital lease obligations, payable in various monthly installments through September 2008, including interest at rates from 6.5% to 7.9% (new obligations of approximately $1,076,000 incurred for equipment in 1998)	1,052,732	28,498
	19,727,646	19,163,164
Less current installments	665,609	488,250
Long-term debt, excluding current installments	$ 19,062,037	18,674,914

Under the terms of related revenue bond indentures, the Medical Center is required to maintain certain deposits with a trustee (see note 6). The indentures also place limits on the occurrence of additional borrowings and require the maintenance of minimum debt service coverage.

The hospital revenue bonds are secured by the net revenues (as defined) of the Medical Center and the trusteed funds described in note 6.

Future maturities of long-term debt and payments on capital lease obligations follow:

		Long-term debt	Capital lease obligations
1999	$	558,795	163,261
2000		593,571	172,501
2001		635,126	161,777
2002		678,506	129,603
2003		722,761	129,603
Thereafter		15,486,155	641,779
	$	18,674,914	1,398,524
Less amounts representing interest on capital lease obligations			345,792
			$ 1,052,732

The Medical Center has notes payable to two commercial banks for $1,000,000 ($500,000 at each bank) with interest at 7% per annum. The agreements require monthly payments of interest, with the principal due March 1, 1999.

(9) 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 9.50% 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 years ended September 30, 1998 and 1997 were $990,431 and $975,839, respectively, and were equal to the required contributions for each year.

(10) 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 and commercial insurance policies).

(Continued)

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

	1998	1997
Patients	38 %	29 %
Medicare	21	23
Other third-party payors	23	22
Commercial	7	11
Medicaid	6	9
Blue Cross	5	6
	100 %	100 %

(11) Risk Management

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, 1998 have not exceeded these coverages in any of the three preceding years.

As of September 30, 1998, there is 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 $40,000 per individual claim. Substantial coverage with a third-party carrier is maintained for excess losses.

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.

(12) 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. Brim's annual management fee, which includes key personnel, is $21,000 a month plus expenses. Total fees paid to Brim were approximately $52,000 for the year ended September 30, 1998.

(Continued)

(13) Year 2000 Issue

Management is aware of the potentially significant implications of the Year 2000 issue for the Medical Center. Generally, such implications are in three primary areas:

1. Principal information technology hardware and software operating systems;

2. So-called "embedded systems" within clinical equipment and the like; and

3. Ability of vendors and the Medical Center's third-party payors to themselves effectively manage the Year 2000 issue within their own organizations.

The Medical Center has evaluated the first two matters noted above, through such processes as internal inventories of Year 2000 compliancy, identification of systems (including embedded systems) requiring adjustment or replacement to achieve compliancy, and an explicit vendor confirmation campaign intended to provoke positive confirmations of Year 2000 compliancy or resolution plan on the part of clinical and other equipment vendors.

Substantially all of the Medical Center's operating systems and much of its clinical and other equipment are date-dependent for effective operation. Thus, the inability to achieve Year 2000 compliancy in such systems would likely have a significant detrimental impact on the Medical Center's day-to-day operations. The Medical Center is contractually committed to Year 2000 compliant information system upgrades totaling $550,000. These upgrades will be installed and tested during fiscal 1999.

The Medical Center receives a substantial portion of its revenues from the Medicare and Medicaid programs. The Health Care Financing Administration (HCFA), the Federal agency responsible for administering the Medicare program, is periodically evaluated by the Federal government as to the status of its Year 2000 compliance efforts, and HCFA has reported that all of its mission-critical systems are Year 2000 compliant. The Medical Center has received no assurances from the Louisiana Medicaid program as to that payor's Year 2000 compliancy plans or results. Failure of these payors to achieve Year 2000 compliance in a timely fashion could have a material detrimental impact on the Medical Center's financial position and results of operations.

The Medical Center does not and cannot control the Year 2000 compliancy plans of its important vendors and most particularly its third-party payors such as those described above. The Medical Center's cash flow is largely dependent on the ability of its third-party payors to timely and effectively process claims for services as submitted by the Medical Center. If the payment of claims by third-party payors, especially those responsible for governmental program claims, is disrupted for any reason, including the Year 2000 issue, the Medical Center's financial position and results of operations would be materially affected.

Schedule 1

IBERIA MEDICAL CENTER

Schedule of Other Revenues

Years ended September 30, 1998 and 1997

		1998	1997
Investment income on bond trusteed funds	$	287,387	378,192
Dietary		158,168	170,274
Vending machine		9,009	11,889
Medical records		4,195	8,675
Nutrition service		17,558	9,683
Other		382	294
	$	476,699	579,007

Schedule 2

IBERIA MEDICAL CENTER

Schedule of Board of Commissioners Expenses

Years ended September 30, 1998 and 1997

		1998	1997
J. D. Dugas	$	360	560
Dr. James Falterman, Jr.		240	480
Lynn Minvielle		360	320
Mark Pharr		120	560
Rory Romero		360	240
Don Sigue		—	440
	$	1,440	2,600

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

The Board of Commissioners
Iberia Medical Center:

We have audited the financial statements of Iberia Medical Center (the Medical Center) as of and for the year ended September 30, 1998, and have issued our report thereon dated February 18, 1999, which was qualified because insufficient audit evidence exists to support the Medical Center's disclosures with respect to the Year 2000 issue. Except as discussed in the preceding sentence, 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, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 structure and its operation that we expect to report to management of the Medical Center in a separate letter.

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This report is intended solely for the information and use of the Board of Commissioners and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG Peat Marwick LLP

February 18, 1999