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IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

September 30, 1997

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IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

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Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201

Independent Auditors' Report

The Board of Commissioners
Iberia General Hospital and Medical Center:

We have audited the accompanying balance sheets of Iberia General Hospital and Medical Center (a component unit of Iberia Parish, Louisiana) as of September 30, 1997 and 1996, 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iberia General Hospital and Medical Center as of September 30, 1997 and 1996, 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 January 23, 1998 on our consideration of the Medical Center's internal control structure and a report dated January 23, 1998 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

January 23, 1998

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Balance Sheets

September 30, 1997 and 1996

<u>Assets</u>	<u>1997</u>	<u>1996</u>	<u>Liabilities and Fund Balance</u>	<u>1997</u>	<u>1996</u>
Current assets:			Current liabilities		
Cash and cash equivalents (note 6)	\$ 4,012,408	1,428,650	Current installments of long-term debt (note 7)	\$ 488,250	489,226
Assets limited as to use (notes 6 and 7)	718,395	412,334	Notes payable to banks (note 7)	1,000,000	1,000,000
Patient accounts receivable, less allowance for doubtful accounts of \$1,381,000 in 1997 and \$1,378,000 in 1996 (note 9)	9,882,840	8,144,050	Accounts payable	3,222,318	2,791,757
Other receivables	155,398	85,205	Accrued salaries and related amounts	1,961,553	1,751,575
Inventories	1,129,668	927,871	Accrued interest payable	<u>544,049</u>	<u>187,402</u>
Prepaid expenses	77,228	73,226	Total current liabilities	7,216,170	6,219,960
Due from third-party payors	<u> </u>	<u>700,000</u>	Long-term debt, excluding current installments (note 7)	18,674,914	7,163,163
Total current assets	15,975,937	11,771,336	Fund balance	<u>15,148,344</u>	<u>14,587,030</u>
Assets limited as to use (notes 6 and 7)	6,115,121	803,835			
Property and equipment, net (note 4)	18,476,209	15,358,867	Commitments and contingencies (notes 2, 5, 7, 8 and 10)	<u>41,039,428</u>	<u>27,970,153</u>
Bond issuance costs, net	<u>472,161</u>	<u>36,115</u>	Total liabilities and fund balance	\$ 41,039,428	\$ 27,970,153
Total assets	\$ <u>41,039,428</u>	<u>27,970,153</u>			

See accompanying notes to financial statements.

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Statements of Operations

Years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Net patient service revenue (notes 2 and 7)	\$ 34,734,067	30,100,150
Other revenues	<u>579,007</u>	<u>197,418</u>
Total revenue	<u>35,313,074</u>	<u>30,297,568</u>
Operating expenses:		
Salaries, wages, fees and benefits	20,174,639	17,091,968
Supplies and other expenses	8,862,580	7,322,568
Depreciation and amortization	1,819,194	1,750,937
Interest expense	1,006,114	486,932
Provision for doubtful accounts	<u>3,017,043</u>	<u>2,367,443</u>
Total expenses	<u>34,879,570</u>	<u>29,019,848</u>
Income from operations	433,504	1,277,720
Nonoperating gains, net	<u>127,810</u>	<u>89,499</u>
Revenue and gains in excess of expenses and losses	<u>\$ 561,314</u>	<u>1,367,219</u>

See accompanying notes to financial statements.

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Statements of Changes in Fund Balance

Years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Balance at beginning of year	\$ 14,587,030	13,219,811
Revenue and gains in excess of expenses and losses	<u>561,314</u>	<u>1,367,219</u>
Balance at end of year	\$ <u>15,148,344</u>	<u>14,587,030</u>

See accompanying notes to financial statements.

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Statements of Cash Flows

Years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Income from operations	\$ 433,504	1,277,720
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,819,194	1,750,937
(Gain) loss on sale of equipment	(4,459)	1,855
Interest received	(378,192)	(24,604)
Interest payments	1,008,343	486,932
Changes in operating assets and liabilities:		
Patient receivables, net	(1,738,790)	(2,467,057)
Other receivables	(70,193)	(45,439)
Prepaid expenses	(4,002)	(16,677)
Inventories	(201,797)	(42,197)
Amounts due from third-party payors	700,000	(235,820)
Accounts payable and other accrued expenses	<u>997,186</u>	<u>1,455,035</u>
Net cash provided by operating activities	<u>2,560,794</u>	<u>2,140,685</u>
Cash flows from investing activities:		
Increase in assets limited as to use	(4,545,084)	-
Interest received from investments	449,649	88,371
Other receipts	<u>56,353</u>	<u>27,587</u>
Net cash provided by (used in) investing activities	<u>(4,039,082)</u>	<u>115,958</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(4,908,302)	(3,745,195)
Proceeds from issuance of debt	12,000,000	1,000,000
Payment of bond issuance costs	(459,821)	-
Debt service	<u>(1,497,568)</u>	<u>(1,236,468)</u>
Net cash provided by (used in) capital and related financing activities	<u>5,134,309</u>	<u>(3,981,663)</u>
Net increase (decrease) in cash and cash equivalents	3,656,021	(1,725,020)
Cash and cash equivalents at beginning of year	<u>2,644,819</u>	<u>4,369,839</u>
Cash and cash equivalents at end of year	\$ <u>6,300,840</u>	<u>2,644,819</u>

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Statements of Cash Flows, Continued

	<u>1997</u>	<u>1996</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 4,012,408	1,428,650
Cash and cash equivalents in assets limited as to use:		
By board for capital improvements	113,632	11,436
Held by trustee under bond indenture	2,127,525	1,153,799
Under self-insurance trust arrangements	<u>47,275</u>	<u>50,934</u>
	\$ <u>6,300,840</u>	<u>2,644,819</u>

See accompanying notes to financial statements.

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

September 30, 1997 and 1996

(1) *Organization and Summary of Significant Accounting Policies*

Iberia General Hospital and 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 (GAS) 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 GAS 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.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(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 trustee investments held under a related bond indenture, to the extent not capitalized, is reported as other revenue.

(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.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(i) Proprietary Fund Accounting

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

(j) Accounting Standards

Pursuant to GAS 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 \$360,000 was capitalized in 1997. No interest costs were capitalized in 1996.

(l) Income Taxes

The Medical Center qualifies as tax-exempt under existing provisions of the Internal Revenue Code and its income, generally, is not 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.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(n) Reclassifications

Certain reclassifications have been made in the 1996 financial statements to conform with the 1997 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, 1994.
- 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:

	<u>1997</u>	<u>1996</u>
Gross patient service revenue	\$ 58,472,250	48,307,439
Less provision for contractual adjustments	<u>23,738,183</u>	<u>18,207,289</u>
	<u>\$ 34,734,067</u>	<u>30,100,150</u>

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(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 \$217,000 in 1997 and \$387,000 in 1996.

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 \$134,000 in 1997 and \$125,000 in 1996.

(4) *Property and Equipment*

A summary of property and equipment follows:

	<u>1997</u>	<u>1996</u>
Land and improvements	\$ 1,380,089	1,209,825
Building and improvements	13,691,102	10,908,668
Fixed equipment	4,382,800	4,382,800
Major movable equipment	14,849,391	13,129,209
Construction in progress	<u>2,883,270</u>	<u>2,712,631</u>
	37,186,652	32,343,133
Less accumulated depreciation and amortization	<u>18,710,443</u>	<u>16,984,266</u>
	<u>\$ 18,476,209</u>	<u>15,358,867</u>

Construction in progress at September 30, 1997 is principally comprised of expenditures related to construction of a medical office building, construction of a children's center, and information technology systems. Estimated costs to complete these projects are approximately \$4,900,000 at September 30, 1997, and the projects are scheduled for substantial completion during 1998.

Equipment under capital lease obligation totaling approximately \$1,100,000 is included in major movable equipment at September 30, 1997 and 1996. Related accumulated amortization was approximately \$887,000 and \$794,000 at September 30, 1997 and 1996, respectively.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(5) Operating Leases

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

1998	\$ 62,004
1999	55,964
2000	<u>37,147</u>
	\$ <u>155,115</u>

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:

1998	\$ 185,695
1999	185,695
2000	180,512
2001	101,970
2002	<u>12,159</u>
	\$ <u>666,031</u>

Rental expense for operating leases was approximately \$404,000 in 1997 and \$365,000 in 1996.

(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.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

Category 2 - Uninsured and unregistered, collateralized with securities held by the counterparty'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			Total
	1	2	3	
September 30, 1997:				
Cash and cash equivalents	\$ <u>301,365</u>	<u>3,711,043</u>	<u>—</u>	<u>4,012,408</u>
Board-designated for capital improvements:				
Cash and cash equivalents	\$ <u>100,000</u>	<u>13,632</u>	<u>—</u>	<u>113,632</u>
Held by trustee under bond indenture:				
Cash and cash equivalents	—	—	2,127,525	2,127,525
U.S. Treasury notes	<u>4,545,084</u>	<u>—</u>	<u>—</u>	<u>4,545,084</u>
	<u>4,545,084</u>	<u>—</u>	<u>2,127,525</u>	<u>6,672,609</u>
Held under self-insurance trust arrangements:				
Cash and cash equivalents	<u>—</u>	<u>47,275</u>	<u>—</u>	<u>47,275</u>
Total assets limited as to use	\$ <u>4,645,084</u>	<u>60,907</u>	<u>2,127,525</u>	<u>6,833,516</u>
September 30, 1996:				
Cash and cash equivalents	\$ <u>148,557</u>	<u>1,280,093</u>	<u>—</u>	<u>1,428,650</u>
Board-designated for capital improvements:				
Cash and cash equivalents	\$ <u>11,436</u>	<u>—</u>	<u>—</u>	<u>11,436</u>

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(6), Continued

	Category			Total
	1	2	3	
September 30, 1996, continued:				
Held by trustee under bond indenture:				
Cash and cash equivalents	—	—	1,153,799	1,153,799
Held under self-insurance trust arrangements:				
Cash and cash equivalents	50,934	—	—	50,934
Total assets limited as to use	\$ 62,370	—	1,153,799	1,216,169

A summary of the maturities of investments at September 30, 1997 follows:

After one through three years	\$ 2,650,678
After seven through nine years	<u>1,894,406</u>
	<u>\$ 4,545,084</u>

Trusted 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 trusted funds follows:

	<u>1997</u>	<u>1996</u>
Debt service reserve funds	\$ 1,908,321	813,457
Principal and interest funds	671,119	340,342
Project fund	2,936,171	—
Depreciation reserve fund	1,096,637	—
Cost of issuance fund	<u>60,361</u>	<u>—</u>
	6,672,609	1,153,799
Less deposits classified as current assets	<u>671,120</u>	<u>361,400</u>
	<u>\$ 6,001,489</u>	<u>792,399</u>

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

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 be 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.

(7) *Long-term Debt*

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

	<u>1997</u>	<u>1996</u>
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1979, payable in semi-annual installments, including interest, through November 2009 at 6%	\$ 3,551,666	3,738,065
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1980, payable in semi-annual installments, including interest, through May 2010 at 6%	3,583,000	3,758,000
Hospital Service District No. 1 of Iberia Parish, Louisiana Hospital Revenue Bonds - Series 1996, payable in semi-annual installments, including interest, through May 2016 at rates from 7.5% to 8%	12,000,000	—
Capital lease obligation, remainder due in 1998	<u>28,498</u>	<u>156,324</u>
	19,163,164	7,652,389
Less current installments	<u>488,250</u>	<u>489,226</u>
Long-term debt, excluding current installments	\$ <u><u>18,674,914</u></u>	<u><u>7,163,163</u></u>

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

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.

Future maturities of long-term debt follow:

1998	\$ 488,250
1999	558,795
2000	593,571
2001	635,126
2002	678,506
Thereafter	<u>16,208,916</u>
	\$ <u>19,163,164</u>

The Medical Center has a \$1,500,000 unsecured line of credit available with two commercial banks. Amounts outstanding of \$1,000,000 at September 30, 1997 and 1996 bear interest based on the banks' prime rates. The interest rates on the outstanding balances (\$500,000 at each bank) were 8.75% and 9% at September 30, 1997.

(8) *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, 1997 and 1996 were \$975,839 and \$795,219, respectively, and were equal to the required contributions for each year.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

(9) 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).

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

	<u>1997</u>	<u>1996</u>
Patients	29%	26%
Medicare	23	20
Other third-party payors	22	20
Commercial	11	16
Medicaid	9	10
Blue Cross	<u>6</u>	<u>8</u>
	<u>100%</u>	<u>100%</u>

(10) 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, 1997 have not exceeded these coverages in any of the three preceding years.

As of September 30, 1997, 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 has 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.

(Continued)

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Notes to Financial Statements

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.

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Schedule of Other Revenues

Years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Investment income on bond trustee funds	\$ 378,192	24,604
Dietary	170,274	143,917
Vending machine	11,889	12,383
Medical records	8,675	4,261
Nutrition service	9,683	10,730
Other	<u>294</u>	<u>1,523</u>
	\$ <u>579,007</u>	<u>197,418</u>

IBERIA GENERAL HOSPITAL AND MEDICAL CENTER

Schedule of Board of Commissioners Expenses

Years ended September 30, 1997 and 1996

	<u>1997</u>	<u>1996</u>
J. D. Dugas	\$ 560	560
Dr. James Falterman, Jr.	480	480
Bill Miller	—	440
Lynn Minvielle	320	—
A. W. Pratt	—	640
Mark Pharr	560	600
Rory Romero	240	120
Don Sigue	<u>440</u>	<u>600</u>
	\$ <u>2,600</u>	<u>3,440</u>



Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201

Independent Auditors' Report on Compliance
with Laws, Regulations, Contracts and Grants

The Board of Commissioners
Iberia General Hospital and Medical Center:

We have audited the financial statements of Iberia General Hospital and Medical Center as of and for the year ended September 30, 1997, and have issued our report thereon dated January 23, 1998.

We conducted our audit 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.

Compliance with laws, regulations, contracts, and grants applicable to the Medical Center is the responsibility of the Medical Center's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Medical Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial statements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Commissioners and management. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 23, 1998



Member Firm of
KPMG International

Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201

Independent Auditors' Report
on Internal Control Structure

The Board of Commissioners
Iberia General Hospital and Medical Center:

We have audited the financial statements of Iberia General Hospital and Medical Center as of and for the year ended September 30, 1997, and have issued our report thereon dated January 23, 1998.

We conducted our audit 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.

The management of the Medical Center is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Medical Center for the year ended September 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

The Board of Commissioners
Iberia General Hospital and Medical Center
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Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the Medical Center in a separate letter dated January 23, 1998.

This report is intended for the information of the Board of Commissioners and management. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 23, 1998

Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201

January 23, 1998

CONFIDENTIAL

The Board of Commissioners
Iberia General Hospital and Medical Center

Members of the Board:

We have audited the financial statements of Iberia General Hospital and Medical Center (the Medical Center) for the year ended September 30, 1997, and have issued our report thereon dated January 23, 1998. In planning and performing our audit of the financial statements of the Medical Center, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Allowance for Contractual Adjustments

During our audit of the allowance for contractual adjustments we noted that account balances having dates of service greater than 180 days old were generally excluded from the Medical Center's calculations in estimating the allowance for contractual adjustments. Such accounts are also not explicitly considered in the Medical Center's allowance for doubtful accounts. We found, however, that such allowances in the aggregate were reasonable, due to other estimation methodologies which created "cushions" in amounts adequate to cover the 180 day and older accounts.

To enhance financial reporting, we recommend the Medical Center ensure that all accounts over 180 days old are explicitly considered when estimating the allowances for contractual adjustments and doubtful accounts.

The Board of Commissioners
Iberia General Hospital and Medical Center
January 23, 1998
Page Two

Accounts Receivable

During our review of business office operations we noted the following:

- The business office has four full-time equivalents (FTE's) who are collectors
- At September 30, 1997, the Medical Center had approximately 50,000 accounts (24,000 active and 26,000 in bad debts/collections)
- Bills are generated approximately 7 days after discharge
- Collectors are responsible for accounts based on patient last name (i.e. A-J, K-R, S-Z)

Management of the Medical Center is aware of the need to enhance cash flow by reducing accounts receivable from its current high level. The Medical Center may wish to consider the following suggestions to enhance business office operations:

- One FTE per 1,000 accounts per month is considered "best of class" for the number of collectors needed for successful business office operations; therefore the Medical Center may need to devote more FTE's to collections
- *Generate bills within 3-4 days of discharge, which is also considered "best of class."*
- Investigate "out-sourcing" opportunities to potentially achieve near-term improvements.
- Ensure that collectors are devoted to appropriate segments of the portfolio (e.g., large balances, specific payors, etc.).
- Consider a business office "diagnostic," which might reveal additional opportunities for improvements.

Medicare and Medicaid Logs Reconciliation

The Medical Center's Medicare and Medicaid logs were not complete or up-to-date for use in preparing the Medical Center's September 1997 cost reports. Periodic reconciliations of the Medicare and Medicaid logs to the related remittance advices should be performed on a periodic basis. Although this is not considered a critical internal control, this procedure does serve as an additional "check" to ensure that the fiscal intermediary summary reports are appropriately capturing and classifying third-party revenues, which in turn might enhance cost reporting for the Medical Center.

The Board of Commissioners
Iberia General Hospital and Medical Center
January 23, 1998
Page Three

Medicare Disproportionate Share Payment

To ensure that the Medical Center continues to qualify for the Medicare disproportionate share payment (approximately \$300,000 in 1997) we recommend the Medical Center begin keeping an out-of-state Medicaid claims log and a log of inpatient Medicaid patients who were Medicaid eligible but the Medical Center did not receive payment because the patient had exhausted their benefits.

The two logs should include the following information:

- Patient name and number
- Dates of service
- Total days paid
- Eligible days not paid
- Payment register date and retain a copy of the register on which the claim was paid

Medicare Reimbursement

The Balanced Budget Act of 1997 impacts the Medical Center in several areas, including:

- reductions in reimbursement of Medicare "bad debts;"
- limiting cost-based rural health clinic reimbursement to the per-visit caps previously applied only to free-standing clinics;
- the establishment of a prospective payment system for home health services beginning October 1, 1999;
- the establishment of a prospective payment system for home health services beginning October 1, 1999;
- the establishment of a prospective payment system for skilled nursing facilities for cost reporting periods beginning on or after July 1, 1998; and
- the establishment of a prospective payment system for outpatient services delivered on or after January 1, 1999.

We recommend the Medical Center assess the impact the Act will have on the Medical Center's reimbursement from the Medicare program.

The Board of Commissioners
Iberia General Hospital and Medical Center
January 23, 1998
Page Four

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Please accept our thanks to management and other employees of the Medical Center for their cooperation and courtesy over the course of the 1997 audit. We would, of course, be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the board, management and others within the Medical Center.

Very truly yours,

KPMG Peat Marwick LLP

