

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995

NOTE 7 - PENSION PLAN

All Hospital full-time employees participate in the Municipal Employees' Retirement System, State of Louisiana ("System"), a multiple employer public employee retirement system (PERS). The payroll for Hospital employees covered by the System for the year ended June 30, 1996, was approximately \$ 4,755,000; the Hospital's total payroll was approximately \$ 5,540,000.

Membership is mandatory as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week, not participating in another publicly funded retirement system, and under the age of sixty at the date of employment.

The system is comprised of two plans. "Plan A" combines the original plan and a supplemental plan while "Plan B" involves only the original plan. Any member of Plan A can retire provided he/she is age fifty-five with twenty-five years of creditable service; is age sixty with a minimum of ten years of creditable service or at any age with thirty or more years of creditable service. A member of Plan B can retire provided he/she is age fifty-five with thirty years of creditable service or is age sixty with a minimum of ten years of creditable service.

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B with thirty years of service at age fifty-five; twenty years of service at age sixty; fifteen years of service at age sixty-two; or ten years of service at age sixty-five may elect to participate in the deferred retirement option plan (DROP) for up to two years and defer the receipt of benefits. Upon commencement of participation in the DROP plan, membership in the System terminates. During participation in the plan, employer contributions are payable but employee contributions cease. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance are paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases are payable to participants until employment which made them eligible to become members of the System has been terminated for a least one full year.

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan may receive, at his option, a lump sum from the account equal to the payment into the account, a true annuity based upon his actual balance in that fund, or any other method of payment if approved by the board of trustees. The monthly benefits that were being paid into the deferred retirement option plan fund will begin to be paid to the retiree. If a participant dies during the participation in the plan, a lump sum equal to his account balance in the plan fund shall be paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the two years, payments into the plan fund cease and the person resumes active contributing membership in the System. Additional accrued benefits are based on final average compensation used to calculate the member's original benefit unless the additional period of service is at least thirty-six months.

Generally, the monthly amount of retirement allowance for any member of Plan A or Plan B shall consist of an amount equal to three percent or two percent, respectively, of the member's final compensation multiplied by his/her years of creditable service. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts. Both plans provide for death

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995

NOTE 7 - PENSION PLAN - Continued

and disability benefits. Benefits and employer/employee obligations to contribute are established by state statute.

Each participating employer of Plan A contributes an amount equal to 6.00% of each and every member's earnings. Each employee in Plan A contributes 9.25% of monthly earnings. Under Plan B, each participating employer contributes an amount equal to 4.00% of each and every member's earnings. Each employee in Plan B contributes 5.00% of monthly earnings. The System also receives 1/4 of 1% of ad valorem taxes collected within the parishes of Louisiana, except for Orleans Parish. Tax moneys are apportioned between Plan A and Plan B in proportion to the salaries of plan participants. These additional sources of income are used as additional employer contributions. The remaining employer contributions are determined according to actuarial requirements and are set annually. The contribution requirement for the year ended June 30, 1996, was approximately \$ 755,000, which consisted of \$ 321,000 from the Hospital and \$ 434,000 from the employees.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted to the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employees. The System does not make separate measurement of assets and pension benefits obligation for individual employers. The pension benefit obligation at June 30, 1995, (the latest actuarial report furnished to the hospital), for the System as a whole, determined through an actuarial valuation performed as of that date (valued at market) was approximately \$ 387 million. The System's net assets available for benefits on that date (valued at cost) was approximately \$ 338 million, leaving an unfunded pension benefit obligation of \$ 49 million. The Hospital's contribution for the year ended June 30, 1995 represented approximately 4% of total contributions paid by all participating entities. Five-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. No securities of the Hospital are held by the System.

NOTE 8 - OFF BALANCE SHEET RISKS

Concentrations of credit

The Hospital operates in Homer, Louisiana, and grants credit on its services to its patients, substantially all of whom are local residents of the Parish. Generally, the Hospital accepts assignments of patients' benefits payable under either public or private insurance programs or policies in lieu of collateral to secure its patient accounts receivable. At June 30, 1996 and 1995, approximately 61% and 57%, respectively, of patient accounts receivable was related to beneficiaries of the Medicare and Medicaid programs. Future changes (if any) occurring within the local economy or the Medicare and Medicaid reimbursement methods can significantly affect the operations of the Hospital.

**HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995**

NOTE 6 - HOSPITAL REVENUE BONDS

Hospital revenue bonds payable consist of the original amount of \$ 3,800,000 of Hospital Revenue Bonds of The Town of Homer, State of Louisiana dated June 15, 1988. The bonds were issued for the purpose of constructing and acquiring hospital extensions, additions and improvements, equipment, and furnishings. The bonds mature on June 15 of each year through 2018. The interest rate on the bonds is 6.125% and is due annually on June 15 of each year. The bonds are secured by a first lien on the hospital land, buildings, and equipment.

The revenue bond indenture requires the Hospital to establish and maintain certain funds for the benefit of the bond holder, Farmers Home Administration. The funding requirements are as follows:

Sinking fund requirements - the Hospital is required to make monthly deposits of \$ 23,608. In June, 1991, the Hospital began paying the debt in monthly installments in lieu of establishing a sinking fund. Accordingly, a sinking fund is not reflected in the financial statements.

Reserve fund requirements - the Hospital is required to make monthly deposits of \$ 2,361 until the fund has accumulated \$ 283,290.

Contingency fund requirements - the Hospital is required to make monthly deposits of \$ 1,194.

Actual and required balances of the reserve fund and contingency fund at June 30, 1996 is as follows:

	<u>Actual</u>	<u>Required</u>	<u>Excess</u>
Reserve fund	\$ 288,248	\$ 165,256	\$ 122,992
Contingency fund	92,238	83,580	8,658
Total	<u>\$ 380,486</u>	<u>\$ 248,836</u>	<u>\$ 131,650</u>

Farmers Home Administration permits the Hospital to pay on the principal and interest monthly in lieu of annually. The monthly payments are applied to reduce the principal debt when paid. Assuming the continuation of monthly payments, future principal and interest requirements on the bonded debt for the next five fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 80,495	\$ 202,795	\$ 283,290
1998	85,566	197,724	283,290
1999	90,957	192,333	283,290
2000	96,687	186,603	283,290
2000	102,775	180,515	283,290

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995

NOTE 4 - EDUCATIONAL CONTRACTS RECEIVABLE - Continued

The loans become immediately due and payable to the Hospital if the employee or medical student does not provide services for the Hospital for the full period of time within the contract. The following is a summary of the net educational contracts receivable at June 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
Balance, beginning of year	\$ 300,750	\$ 206,417
Educational advances	107,330	112,843
Allowance for uncollectibles	(15,080)	(6,019)
Cancellation and repayments of contracts	(32,840)	(12,491)
Balance, end of year	<u>\$ 360,160</u>	<u>\$ 300,750</u>

NOTE 5 - LEASE OBLIGATIONS

Capital leases

The Hospital leases certain items of equipment under lease arrangements which are noncancelable and qualify as capital lease arrangements. Future minimum lease payments required under these noncancelable lease arrangements are summarized as follows:

Year Ending June 30,	<u>Minimum Payments</u>
1997	\$ 25,704
1998	25,704
1999	24,916
2000	9,495
2001	-0-
Total capital lease payments	85,819
Less amount representing interest	(9,200)
	<u>76,619</u>
Current maturities	(21,228)
Long-term maturities	<u>\$ 55,391</u>

Operating leases

Other than the main campus in Homer, the Hospital leases various facilities within the area in providing home health, partial hospitalization, and inpatient geriatric services. In providing these services, the Hospital has various lease commitments which lease terms range from monthly to several months in the future. During 1996, lease expense under these arrangements was approximately \$ 131,000 with the monthly lease obligation at June 30, 1996 being \$ 22,700. Future minimum lease payments on the operating leases having terms beyond one month are as follows:

Year Ending June 30,	<u>Payments</u>
1997	\$ 49,200
1998	21,600
1999	-0-

**HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995**

NOTE 2 - HEALTH INSURANCE PROGRAM REIMBURSEMENT

Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 1994.

Medicaid - Prior to July 1, 1994, inpatient acute care services rendered to Medicaid program beneficiaries are paid at established daily rates for each patient day. Outpatient services are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate during the fiscal year. These rates may be adjusted by the fiscal intermediary during the fiscal year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 1992.

Since July 1, 1994, the Hospital has been paid for substantially all services rendered to inpatient Medicaid program beneficiaries under prospectively determined rates, which are paid on a per diem basis. Costs incurred on services rendered to Medicaid inpatients which exceed the prospectively determined payment rates are not recoverable from the Medicaid program or its beneficiaries. No changes were made to the outpatient reimbursement.

NOTE 3 - NET PATIENT SERVICE REVENUE

The following is a summary of net patient service revenue for the years ended June 30, 1996 and 1995.

	1996	1995
Inpatient charges	\$ 7,838,812	\$ 8,943,772
Outpatient charges	8,594,747	5,392,397
Total patient charges	16,433,559	14,336,169
Medicare and Medicaid contractual adjustments	(5,158,424)	(3,851,319)
Medicaid disproportionate payments	180,546	265,021
Charity care charges forgone	(51,089)	(74,750)
Administrative and other adjustments	(242,208)	(171,574)
Net patient service revenue	<u>\$ 11,162,384</u>	<u>\$ 10,503,547</u>

NOTE 4 - EDUCATIONAL CONTRACTS RECEIVABLE

The Hospital provides educational assistance to selected medical students and certain employees who contractually agree to return to the Hospital's service area after graduation. Under the terms of these contracts, the Hospital advances funds to assist the students in their educational costs. Employees agree to repay the loan through extended years of service at the Hospital. Medical students repay the loan by practicing in the Hospital service area for a period of years.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

requirements. Board-designated assets may, at the board's discretion, be subsequently used for other purposes. Amounts required to meet current liabilities of the hospital have been reclassified in the balance sheet at June 30, 1996 and 1995.

Property and Equipment

Property and equipment is recorded at cost, and depreciation is computed using the straight-line method. Estimated useful lives range from 5 to 33 years on buildings and fixed equipment and 3 to 20 years on moveable equipment.

Property Tax Revenues

Advalorem tax revenues consist of tax proceeds received by the Hospital from Claiborne Parish Hospital District No. 2, which was created in 1989, by the Police Jury and approved by the Parish voters on September 15, 1989, to levy a ten mill tax on property for ten years. Due to the fact that the District is a separate entity controlled by a separate board of directors, the Hospital cannot levy the property tax. Accordingly, taxes receivable are not reflected in the accompanying financial statements.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all cash that is not limited to use is treated as cash and cash equivalents.

Pledged Assets

The hospital's property and equipment is pledged as collateral on the Hospital Revenue Bonds in the original amount of \$ 3,800,000.

NOTE 2 - HEALTH INSURANCE PROGRAM REIMBURSEMENT

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. For the years ended June 30, 1996 and 1995, 57% and 56%, respectively, of the Hospital's patient revenues were generated by services furnished to Medicare and Medicaid program beneficiaries. A summary of the payment arrangements 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. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The

**HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Homer Memorial Hospital is an enterprise fund of the Town of Homer, Louisiana, and is exempt from income taxes. The hospital is a 57 bed acute care facility which is controlled by a board of directors, who are a separate and distinct body from the Selectmen of the Town of Homer. The board members consist of citizens appointed by the Mayor and Selectmen of the Town of Homer. The board members serve without compensation.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Temporarily Restricted Fund Balance

Temporarily restricted funds are those whose use by the Hospital has been limited by donors to a specific time period or purpose. These funds at year-end consist of unspent grant funds received from the State of Louisiana.

Net Patient Service Revenue

Net patient service revenue is reported at 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient Receivables

Receivables are stated at the full value of all charges incurred by the patient. Allowances have been provided for the estimated accounts uncollectible and for third-party contractual adjustments at year end. Receivables are written off as the accounts are determined to be uncollectible.

Inventories

Inventories represent dietary and medical supplies on hand and are valued at the latest invoice price which approximates the lower of cost (first-in, first-out method) or market.

Prepaid Expenses

Prepaid expenses are amortized on a straight-line basis over the term of the respective items.

Assets Whose Use is Limited

Assets whose use is limited primarily include cash which has either been designated by the Board of Directors or which is required to be maintained separately due to bond indenture, donor, or grant

**HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
Years Ended June 30, 1996 and 1995**

	<u>1996</u>	<u>1995</u>
Reconciliation of Net Income to Net Cash Flows From Operating Activities		
<i>Loss from operations</i>	(\$ 1,123,141)	(\$ 202,376)
<i>Adjustments:</i>		
Depreciation	656,684	632,052
Provision for bad debts	839,625	369,803
Interest received	188,020	144,887
Decrease (increase) in operating assets:		
Gross patient accounts receivable, net of bad debts	(1,513,351)	(879,339)
Inventories	(6,313)	(31,116)
Prepaid expenses	7,145	(6,639)
Due from health insurance programs	156,380	(54,263)
Start-up costs	(146,962)	(41,009)
Increase (decrease) in operating liabilities:		
Accounts payable	(175,873)	(9,143)
Accrued payroll and benefits	173,795	61,202
Accrued uncompensated absences	19,466	53,236
Due to health insurance programs	19,621	-0-
Interest payable	(38)	(36)
Total Adjustments	218,199	239,635
<i>Net Cash Provided From Operating Activities</i>	<u>(\$ 904,942)</u>	<u>\$ 37,259</u>

Supplemental Disclosures on Non-cash Financing Activities:

During 1996 and 1995, the Hospital purchased equipment for \$ 25,952 and \$ 68,500, respectively, through capital lease arrangements.

See Notes to Financial Statements.

**HOMER MEMORIAL HOSPITAL
 STATEMENTS OF CHANGES IN FUND BALANCE
 Years Ended June 30, 1996 and 1995**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
<i>Balance, June 30, 1994</i>	\$ 7,524,086	\$ 163,757
Investment income from restricted funds	-0-	5,390
Excess of revenues over expenses	301,774	-0-
<i>Balance, June 30, 1995</i>	<u>7,825,860</u>	<u>169,147</u>
Investment income from restricted funds	-0-	3,468
Excess of revenues over expenses	(583,702)	-0-
Expenditure of restricted funds	153,921	(153,921)
<i>Balance, June 30, 1996</i>	<u>\$ 7,396,079</u>	<u>\$ 18,694</u>

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF REVENUES AND EXPENSES
Years Ended June 30, 1996 and 1995

	<u>1996</u>	<u>1995</u>
<i>Net Patient Service Revenue</i>	\$ 11,162,384	\$ 10,503,547
<i>Other Operating Revenue</i>	60,583	77,908
Total Revenue	<u>11,222,967</u>	<u>10,581,455</u>
<i>Operating Expenses:</i>		
Salaries and employee benefits	6,658,589	6,004,880
Professional and contractual fees	916,552	530,725
Supplies and other expenses	3,075,358	3,019,670
Bad debt expense	839,625	369,803
Depreciation	656,684	632,052
Interest	199,300	226,701
Total Operating Expenses	<u>12,346,108</u>	<u>10,783,831</u>
Loss From Operations	<u>(1,123,141)</u>	<u>(202,376)</u>
<i>Non-Operating Gains:</i>		
Advalorem tax revenue	304,173	293,251
Investment income	184,552	139,497
Grant funds from the State of Louisiana	50,714	75,000
Loss on sale of assets	-0-	(3,598)
Total Non-Operating Revenue	<u>539,439</u>	<u>504,150</u>
Revenues and Gains Over (Under) Expenses	<u>(\$ 583,702)</u>	<u>\$ 301,774</u>

See Notes to Financial Statements.

**HOMER MEMORIAL HOSPITAL
BALANCE SHEETS - CONTINUED
June 30, 1996 and 1995**

LIABILITIES AND FUND BALANCE	<u>1996</u>	<u>1995</u>
<i>Current Liabilities:</i>		
Accounts payable	\$ 119,953	\$ 295,826
Accrued payroll and benefits	469,396	295,601
Accrued uncompensated absences	247,264	227,798
Due to health insurance programs	19,621	-0-
Interest payable	1,685	1,723
Current portion of long-term debt	101,721	136,996
Total Current Liabilities	<u>959,640</u>	<u>957,944</u>
 <i>Long-Term Debt:</i>		
Capital lease obligations	76,619	112,724
Hospital revenue bonds payable	3,347,458	3,423,144
	<u>3,424,077</u>	<u>3,535,868</u>
Less current portion	(101,721)	(136,996)
Net Long-Term Debt	<u>3,322,356</u>	<u>3,398,872</u>
 <i>Fund Balance:</i>		
Unrestricted	7,396,079	7,825,860
Temporarily restricted	18,694	169,147
Total Fund Balance	<u>7,414,773</u>	<u>7,995,007</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 11,696,769</u></u>	 <u><u>\$ 12,351,823</u></u>

See Notes to Financial Statements.

**HOMER MEMORIAL HOSPITAL
BALANCE SHEETS
June 30, 1996 and 1995**

ASSETS	1996	1995
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 372,898	\$ 765,162
Patient receivables, less allowance for contractual adjustment & doubtful accounts of \$2,802,259 - 1996 & \$1,796,395 -1995	2,568,768	1,895,042
Inventories	246,766	240,453
Prepaid expenses	80,027	87,172
Due from health insurance programs	-0-	156,380
Assets whose use is limited for current liabilities	88,379	104,276
Total Current Assets	3,356,838	3,248,485
<i>Assets Whose Use is Limited:</i>		
By board:		
For capital improvements	85,247	124,642
For self-funded insurance	6,201	26,829
For education purposes	36,042	92,087
For contingencies	2,894,103	3,300,049
By grantor:		
For equipment	18,694	169,147
Under bond indenture agreement	380,486	223,346
	3,420,773	3,936,100
Less portion classified as current	(88,379)	(104,276)
Net Assets Whose Use is Limited	3,332,394	3,831,824
Property and Equipment:		
Land and land improvements	119,716	119,716
Buildings and fixed equipment	5,767,504	5,767,504
Major moveable equipment	3,153,828	2,594,001
Equipment under capital lease	116,574	490,066
	9,157,622	8,971,287
Less accumulated depreciation and amortization	(4,780,317)	(4,128,387)
Net Property, Plant and Equipment	4,377,305	4,842,900
Other Assets:		
Educational contracts receivable	360,160	300,750
Rental property, less accumulated depreciation of \$ 15,018 for 1996 and \$ 10,264 for 1995	79,535	84,289
Health services start-up costs	190,537	43,575
Total Other Assets	630,232	428,614
TOTAL ASSETS	\$ 11,696,769	\$ 12,351,823

See Notes to Financial Statements.

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NEUMAN, RICHARDSON & CO., L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the accompanying financial statements of Homer Memorial Hospital, a component unit of the Town of Homer as of June 30, 1996 and 1995. These financial statements are the responsibility of Homer Memorial Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." 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 respect, the financial position of Homer Memorial Hospital as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Neuman, Richardson & Co., L.L.P.
Neuman, Richardson & Co., L.L.P.
August 14, 1996

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**FINANCIAL STATEMENTS
HOMER MEMORIAL HOSPITAL**

June 30, 1996

(with Independent Auditor's Report Thereon)

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

Release Date APR 02 1987

**HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 1996 and 1995**

	<u>1996</u>	<u>1995</u>
<i>From Operating Activities:</i>		
Cash received on patients accounts	\$ 9,825,034	\$ 9,569,945
Interest received	188,020	144,887
Cash received from sale of meals, vending, etc.	60,583	77,908
Cash paid in salaries and benefits	(6,465,328)	(5,865,968)
Cash paid in fees and supplies	(4,313,913)	(3,662,776)
Cash paid in interest expense	(199,338)	(226,737)
Net Cash Provided (Used)	<u>(904,942)</u>	<u>37,259</u>
<i>From Non-Capital Financing Activities:</i>		
Taxes received	304,173	293,251
Unrestricted grant proceeds	50,714	75,000
Net Cash Provided	<u>354,887</u>	<u>368,251</u>
<i>From Capital and Related Financing Activities:</i>		
Principal payments on long-term debt	(137,743)	(231,273)
<i>From Investing Activities:</i>		
Advances on educational contracts	(59,410)	(94,333)
Decrease (increase) in assets whose use is limited	515,327	334,883
Purchases of property and equipment	(160,383)	(260,511)
Net Cash Provided (Used)	<u>295,534</u>	<u>(19,961)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(392,264)</u>	<u>154,276</u>
<i>Cash and Cash Equivalents:</i>		
Beginning of year	765,162	610,886
End of year	<u>\$ 372,898</u>	<u>\$ 765,162</u>

See Notes to Financial Statements.

**HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995**

NOTE 8 - OFF BALANCE SHEET RISKS - Continued

Cash balances

At June 30, 1996, the aggregate carrying amount of cash, including assets whose use is limited, was \$ 3,793,671 that are invested in one bank and the Louisiana Asset Management Pool. The corresponding bank and pool balances totaled \$ 3,927,497. The difference between the carrying amount reported by the Hospital and the bank and pool balances represents deposits and checks which had not cleared the bank at June 30, 1996. All funds are fully secured by either FDIC coverage or securities pledged against the deposits. At June 30, 1996, the pledged securities were approximately \$1,157,000 in excess of the actual deposits.

Volume of services

The District is dependent upon local physicians practicing in the immediate service area for its volume of patients. Any decrease in the number of physicians from the current level can significantly affect hospital operations.

NOTE 9 - CONTINGENCIES

The Hospital is the defendant in certain litigation arising in the normal course of its business. In the opinion of management and the Hospital's legal counsel, the claims are without merit and the awards for damages (if any) resulting from these claims will not exceed the applicable insurance coverage. Therefore, the Hospital has made no provision for a loss contingency related to these suits in the financial statements.

NOTE 10 - SUBSEQUENT EVENT

Effective July 1, 1996, the Hospital began providing inpatient geriatric services. These services are provided under contract with Sunrise Healthcare Inc. in which the hospital has contractually agreed to compensate Sunrise for the management of the services. To provide these services, the Hospital has leased the previously-abandoned hospital facilities in Haynesville, Louisiana from the Claiborne Parish Hospital Service District Number One. Terms of the operating lease call for one-month lease periods at \$ 12,000 per month with the Hospital responsible for normal repairs and utilities. Lease payments under this lease are included in the monthly lease commitment discussed previously in operating leases of Note 5.

The initial year's operations for the inpatient geriatric services are projected by the Hospital to produce approximately 2,920 patient days of care at an annual direct cost of approximately \$ 1,400,000. It is anticipated the program will be 100% reimbursed by the Medicare program.

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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital (an enterprise fund of the Town of Homer) as of and for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 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 Homer Memorial Hospital is the responsibility of the Hospital's management. As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Homer Memorial Hospital complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Hospital had not complied, in all material respects, with those provisions.

This report is intended for the information of the board of directors, management, Farmers Home Administration, and the Office of the Legislative Auditor of the State of Louisiana. However this report is a matter of public record and its distribution is not limited.

Neuman, Richardson & Co., L.L.P.
Neuman, Richardson & Co., L.L.P.
August 14, 1996

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL
STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital (an enterprise fund of the Town of Homer) as of and for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996.

We have conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of Homer Memorial Hospital for the year ended June 30, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Homer Memorial Hospital 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls

- Revenue/receipts
- Purchases/disbursements
- Cash and cash equivalents
- Receivables
- Property and equipment
- Payables and accrued liabilities
- Long-term debt
- General ledger

For all of the control categories listed above, 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Accounts receivable of the Phases Program

Comments

The total accounts receivable of the Phases program continued to rise in the latter part of the year. The following tabulation indicates how these receivables have increased over the months of the past fiscal year. Since there is a substantial contractual adjustment associated with these receivables, we have shown both the gross amounts and the net amounts. The net amounts represent the estimated cash to be received from the Medicare program. Our review and discussions with business office personnel explain that there have been some problems with the billing process and since it is a new program, the Medicare intermediary was unsure of what billing information was needed by them before payment could be made to the hospital. We encourage the Hospital to continue to monitor these receivables and make every effort to collect these accounts.

Month	Gross Receivable Balance	Net Receivable Balance
July, 1995	\$ 373,000	\$ 338,000
Aug, 1995	322,000	257,000
Sept, 1995	315,000	180,000
Oct, 1995	439,000	248,000
Nov, 1995	585,000	322,000
Dec, 1995	668,000	367,000
Jan, 1996	800,000	455,000
Feb, 1996	1,060,000	431,000
Mar, 1996	1,080,000	465,000
Apr, 1996	1,056,000	348,000
May, 1996	1,176,000	406,000
June, 1996	1,242,000	444,000

Hospital's response

We have contacted Medicare officials and have met with them. Every effort is being made to collect these old and outstanding accounts receivable and when needed, the accounts are being re-billed. We believe these additional efforts will result in a decrease in these accounts.

Educational Contracts

Comments

The educational contracts provide for the Hospital to forgive indebtedness when the student returns to the hospital and works for a specific time. The contracts also provide for the student to repay the hospital if they do not return to the service area. We recommend the hospital provide the board of directors or the finance committee a schedule which documents the monthly or quarterly activity within these contracts.

Hospital's response

This will be provided to the finance committee and board.

Cost Report Statistics

Comments

To assist in preparing both the Medicare and Medicaid cost reports accurately and timely, we suggest the following improvements:

- Since the hospital contracts for its physical therapy service, these fees are subject to maximum amounts based on the hours worked and actual calendar days worked at the facility. We suggest the hospital require the contracted physical therapist to report monthly to the hospital the specific hours worked and the total calendar days worked at the hospital. Salaried therapists do not have specific cost caps placed on them by Medicare and Medicaid; therefore, the hospital may attempt to obtain a salaried therapist in lieu of contracting for these services.
- The medical director fees paid for the phases and home health operations of the hospital are limited by Medicare and Medicaid in reimbursement. Such limits require the determination of the actual number of hours worked by each physician. We recommend the hospital obtain this information more currently as the preparation of the cost report was delayed to some degree in obtaining this information.

Hospital's response

Hospital management will review these suggestions and implement plans to address these issues.

This report is intended for the information of the Board of Directors, management, Farmers Home Administration, and the Office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


Neuman, Richardson & Co., L.L.P.

August 14, 1996

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**SINGLE AUDIT REPORT ON THE INTERNAL
CONTROL STRUCTURE USED IN ADMINISTERING
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996. We have also audited Homer Memorial Hospital's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 14, 1996.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and whether Homer Memorial Hospital complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1996, we considered the District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the District's general purpose financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated August 14, 1996.

The management of Homer Memorial Hospital, 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, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories.

General Requirements

- Political activity
- Civil rights
- Federal financial reports
- Drug-free Workplace Act
- Administrative requirements

Accounting Applications

- Receivables
- Cash receipts
- Purchasing and receiving
- Accounts payable
- Cash disbursements
- Payroll
- Property and equipment
- General ledger

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year June 30, 1996, Homer Memorial Hospital, expended 0% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the aforementioned non-major program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express an opinion.

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 reportable 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 noncompliance with laws and regulations that would be material to a federal financial assistance program 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 certain matters involving the internal control structure and its operations that we have reported to the management of Homer Memorial Hospital in a separate letter dated August 14, 1996. Refer to page 19 of this report for this separate letter.

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



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August 14, 1996

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE TO
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, as of and for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996.

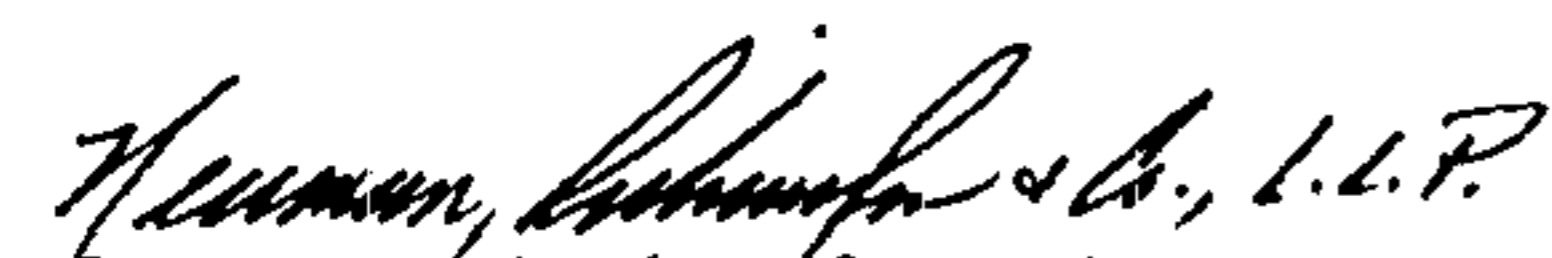
We have applied procedures to test Homer Memorial Hospital, compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 1996:

- Political activity
- Civil rights
- Federal financial reports
- Drug-free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Single Audits of State and Local Governments". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Homer Memorial Hospital, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Homer Memorial Hospital, had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

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


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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, as of and for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996.


We have also audited Homer Memorial Hospital's compliance with the bond requirements that are applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the year ended June 30, 1996. The management of Homer Memorial Hospital is responsible for Homer Memorial Hospital's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Homer Memorial Hospital's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to above.

In our opinion, Homer Memorial Hospital complied, in all material respects, with the bond requirements that are applicable to its major federal financial assistance program for the year ended June 30, 1996.

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


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**INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE**

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, as of and for the year ended June 30, 1996, and have issued our report thereon dated August 14, 1996. These financial statements are the responsibility of Homer Memorial Hospital management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments". Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of Homer Memorial Hospital, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.


Neuman, Richardson & Co., L.L.P.
August 14, 1996

**HOMER MEMORIAL HOSPITAL
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
 For the Year Ended June 30, 1996**

Program	Bond Principal		Bond Interest Paid
	Payable 07/01/95	Paid	
Hospital Revenue Bonds of the Town of Homer, State of Louisiana, Series 1988 purchased by Farmers Home Administration	<u>\$ 3,423,144</u>	<u>\$ 75,686</u>	<u>\$ 3,347,458</u> <u>\$ 207,604</u>