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FINANCIAL STATEMENTS

HOMER MEMORIAL HOSPITAL

June 30, 1997 and 1996

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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 FEB 25 1998

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CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 1997 and 1996. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 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 our report dated September 18, 1997, on our consideration of the Homer Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Neuman, Richardson & Co., LLP
Neuman, Richardson & Co., L.L.P.
September 18, 1997

HOMER MEMORIAL HOSPITAL
BALANCE SHEETS
June 30, 1997 and 1996

ASSETS	1997	1996
Current Assets:		
Cash and cash equivalents	$ 474,579	$ 372,898
Patient receivables, less allowance for contractual adjustment & doubtful accounts of $2,239,902 - 1997 and $2,802,259 - 1996	3,125,568	2,568,768
Educational contracts receivable	162,477	-0-
Inventories	276,869	246,766
Prepaid expenses	77,079	80,027
Due from health insurance programs	446,142	-0-
Assets whose use is limited for current liabilities	91,351	88,379
Total Current Assets,	4,654,065	3,356,838
Assets Whose Use is Limited:		
By board:		
For capital improvements	26,276	85,247
For self-funded insurance	4,114	6,201
For education purposes	14,975	36,042
For contingencies	2,090,920	2,894,103
By grantor:		
For equipment	19,686	18,694
Under bond indenture agreement	413,922	380,486
	2,569,893	3,420,773
Less portion classified as current	(91,351)	(88,379)
Net Assets Whose Use is Limited	2,478,542	3,332,394
Property and Equipment:		
Land and land improvements	132,968	119,716
Buildings and fixed equipment	5,787,158	5,767,504
Major moveable equipment	3,290,097	3,153,828
Equipment under capital lease	116,574	116,574
	9,326,797	9,157,622
Less accumulated depreciation and amortization	(5,443,225)	(4,780,317)
Net Property, Plan and Equipment	3,883,572	4,377,305
Other Assets:		
Educational contracts receivable	272,577	360,160
Other receivables	30,000	-0-
Rental property, less accumulated depreciation of $ 14,456 for 1997 and $ 15,018 for 1996	50,098	79,535
Health services start-up costs	112,155	190,537
Total Other Assets	464,830	630,232
TOTAL ASSETS	$ 11,481,009	$ 11,696,769

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
BALANCE SHEETS - CONTINUED
June 30, 1997 and 1996

LIABILITIES AND FUND BALANCE	1997	1996
Current Liabilities:		
Accounts payable	$ 238,406	$ 119,953
Accrued payroll and benefits	428,005	469,396
Accrued uncompensated absences	228,474	247,264
Due to health insurance programs	-0-	19,621
Interest payable	1,644	1,685
Current portion of long-term debt	108,269	101,721
Total Current Liabilities	1,004,798	959,640
Long-Term Debt:		
Capital lease obligations	55,391	76,619
Hospital revenue bonds payable	3,266,507	3,347,458
	3,321,898	3,424,077
Less current portion	(108,269)	(101,721)
Net Long-Term Debt	3,213,629	3,322,356
Fund Balance:		
Unrestricted	7,242,896	7,396,079
Temporarily restricted	19,686	18,694
Total Fund Balance	7,262,582	7,414,773
TOTAL LIABILITIES AND FUND BALANCE	$ 11,481,009	$ 11,696,769

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF REVENUES AND EXPENSES
Years Ended June 30, 1997 and 1996,

	1997	1996
Net Patient Service Revenue	$ 13,277,139	$ 11,162,384
Other Operating Revenue	67,563	60,583
Total Revenue	13,344,702	11,222,967
Operating Expenses:		
Salaries and employee benefits	6,811,204	6,658,589
Professional and contractual fees	1,724,057	916,552
Supplies and other expenses	3,757,116	3,075,358
Bad debt expense	459,104	839,625
Depreciation	666,537	656,684
Interest	206,774	199,300
Total Operating Expenses	13,624,792	12,346,108
Loss From Operations	(280,090)	(1,123,141)
Non-Operating Revenue:		
Advalorem tax revenue	817	304,173
Investment income	143,749	184,552
Grant funds from the State of Louisiana	-0-	50,714
Loss on sale of assets	(17,659)	-0-
Total Non-Operating Revenue	126,907	539,439
Excess of Expenses Over Revenues	($ 153,183)	($ 583,702)

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCE
Years Ended June 30, 1997 and 1996

	Unrestricted	Temporarily Restricted
Balance, June 30, 1995	$ 7,825,860	$ 169,147
Investment income from restricted funds	-0-	3,468
Excess of expenses over revenues	(583,702)	-0-
Expenditure of restricted funds	153,921	(153,921)
Balance, June 30, 1996	$ 7,396,079	$ 18,694
Investment income from restricted funds	-0-	992
Excess of expenses over revenues	(153,183)	-0-
Balance, June 30, 1997	$ 7,242,896	$ 19,686

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 1997 and 1996

	1997	1996
From Operating Activities:		
Cash received on patients' accounts	$11,795,472	$ 9,825,034
Interest received	144,741	188,020
Cash received from sale of meals, vending, etc.	67,563	60,583
Cash paid in salaries and benefits	(6,871,385)	(6,465,328)
Cash paid in fees and supplies	(5,311,493)	(4,313,913)
Cash paid in interest expense	(206,815)	(199,338)
Net Cash Used	(381,917)	(904,942)
From Non-Capital Financing Activities:		
Taxes received	817	304,173
Unrestricted grant proceeds	-0-	50,714
Net Cash Provided	817	354,887
From Capital and Related Financing Activities:		
Principal payments on long-term debt	(102,179)	(137,743)
From Investing Activities:		
Advances on educational contracts	(74,894)	(59,410)
Proceeds from sale of assets	8,150	-0-
Advance on physician contract	(30,000)	-0-
Decrease in assets whose use is limited	850,880	515,327
Purchase of property and equipment	(169,176)	(160,383)
Net Cash Provided	584,960	295,534
Net Increase (Decrease) in Cash and Cash Equivalents	101,681	(392,264)
Cash and Cash Equivalents:		
Beginning of year	372,898	765,162
End of year	$ 474,579	$ 372,898

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
Years Ended June 30, 1997 and 1996

Reconciliation of Net Income to Net Cash Flows From Operating Activities	1997	1996
Loss from operations:	($ 280,090)	($ 1,123,141)
Adjustments:		
Depreciation	666,537	656,684
Provision for bad debts	459,104	839,625
Interest received	144,741	188,020
Decrease (increase) in operating assets:		
Gross patient accounts receivable, net of bad debts	(1,015,904)	(1,513,351)
Inventories	(30,103)	(6,313)
Prepaid expenses	2,948	7,145
Due from health insurance programs	(446,142)	156,380
Start-up costs	78,382	(146,962)
Increase (decrease) in operating liabilities:		
Accounts payable	118,453	(175,873)
Accrued payroll and benefits	(41,391)	173,795
Accrued uncompensated absences	(18,790)	19,466
Due to health insurance programs	(19,621)	19,621
Interest payable	(41)	(38)
Total Adjustments	(101,827)	218,199
Net Cash Used in Operating Activities	($ 381,917)	($ 904,942)

Supplemental Disclosures on Non-cash Financing Activities:
During 1996, the Hospital purchased equipment for $ 25,952 through capital lease arrangements.

See Notes to Financial Statements.

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 an 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 to be used for the purchase of tele-radiology equipment.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets Whose Use is Limited
Assets whose use is limited represents 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 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. During 1997, the District did not levy the property tax. 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, 1997 and 1996, 72% and 57%, 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

NOTE 2 - HEALTH INSURANCE PROGRAM REIMBURSEMENT - Continued

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 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, 1994.

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, 1997 and 1996.

	1997	1996
Inpatient charges	$ 10,582,776	$ 7,838,812
Outpatient charges	9,263,734	8,594,747
Total patient charges	19,846,510	16,433,559
Medicare and Medicaid contractual adjustments	(6,198,887)	(5,158,424)
Medicaid disproportionate payments	-0-	180,546
Charity care charges forgone	(56,845)	(51,089)
Administrative and other adjustments	(313,639)	(242,208)
Net patient service revenue	$ 13,277,139	$ 11,162,384

NOTE 4 - INDIGENT CARE

The Hospital provides services for the indigent who qualify under guidelines established by the Hospital. These guidelines determine eligibility based on income, residency, resources, and household composition. The Hospital maintains records to identify and monitor the level of indigent care it provides. These records include the amount of charges written-off for services and supplies furnished under its indigent care policy.

The following information measures the level of charity care provided during the years ended June 30, 1997 and 1996:

	1997	1996
Charges forgone based on established rates	$ 56,845	$ 51,089
Estimated costs and expenses incurred to provide charity care	$ 37,700	$ 35,800

NOTE 5 - 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.

The loans, including interest, 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. These loans are classified as current assets in the financial statements. The following is a summary of the net educational contracts receivable at June 30, 1997 and 1996:

	1997	1996
Balance, beginning of year	$ 360,160	$ 300,750
Educational advances	71,406	107,330
Loans classified as currently due	(139,500)	-0-
Allowance for uncollectibles	(-0-)	(15,080)
Cancellation and repayments of contracts	(19,489)	(32,840)
Balance, end of year	$ 272,577	$ 360,160

NOTE 6 - 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,	Minimum Payments
1998	$ 25,704
1999	24,916
2000	9,495
2001	-0-
Total capital lease payments	60,115
Less amount representing interest	(4,724)
	55,391
Current maturities	(22,676)
Long-term maturities	$ 32,715

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 1997 and 1996, lease expense under these arrangements was approximately $252,000 and $131,000, respectively, with the monthly lease obligation at June 30, 1997, being $ 19,736. Future minimum lease payments on the operating leases having terms beyond one month are as follows:

Year Ending June 30,	Payments
1998	$ 30,600
1999 and beyond	-0-

NOTE 7 - 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:

NOTE 8 - PENSION PLAN - Continued

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 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 6.75% 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 3.75% 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.

NOTE 8 - PENSION PLAN - Continued

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, 1997 was approximately $886,000, which consisted of $403,000 from the Hospital and $483,000 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, 1996, (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 $ 386 million. The System's net assets available or benefits on that date (valued at cost) was approximately $453 million, leaving an unfunded pension benefit obligation of $67 million. The Hospital's contribution for the year ended June 30, 1996, 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 9 - 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, 1997 and 1996, approximately 72% and 61%, 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.

Cash balances

At June 30, 1997, the aggregate carrying amount of cash, including assets whose use is limited, was $3,044,472 that are invested in one bank and the Louisiana Asset Management Pool. The corresponding bank and pool balances totaled $3,069,249. The difference between the carrying amount reported by the Hospital and the bank and pool balances represents deposits and checks which

NOTE 9 - OFF BALANCE SHEET RISKS - Continued

had not cleared the bank at June 30, 1997. All funds are fully secured by either FDIC coverage or securities pledged against the deposits. At June 30, 1997, the pledged securities were approximately $845,000 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 10 - 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.

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

To the Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, a component unit of the Town of Homer, as of and for the year ended June 30, 1997, and have issued our report thereon dated September 18, 1997. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Union General Hospital, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Union General Hospital, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Homer Memorial Hospital in a separate letter dated September 18, 1997.

This report is intended for the information of the board of directors, management, and the Legislative Auditor's Office 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.
September 18, 1997

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To the Board of Directors
Homer Memorial Hospital
Homer, Louisiana

In planning and performing the audit of the financial statements of Homer Memorial Hospital for the year ended June 30, 1997, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, 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 Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Board Minutes
Our review of the board of director minutes on September 17,1997, revealed that the following minutes were not signed by the appropriate board officers.

November 19, 1996
December 17, 1996
June 17, 1997

Payroll Accounting
In previous years, we have recommended that the payroll bank account to be reconciled on a monthly basis. This year, we observed this was not being done. In addition, we recommend that the total salary expense on the quarterly payroll reports be reconciled with the salaries reflected in the general ledger. Currently, this process is not being performed and should be performed routinely each quarter.

Changes in BHU Reimbursement
In August, 1997, President Clinton signed the Balanced Budget Act (Act) of 1997. This Act attempts to reduce the amount of Medicare funds the federal government will spend and supposedly keeps the Medicare program financially solvent to the year 2002. The Act particularly will decrease the reimbursement of your BHU unit significantly effective July 1, 1998.

Ultimately, reimbursement of the BHU program is based on costs per discharge and the Act has reduced the cost per discharge to not exceed $10,188. This is considerably less than the $17,000 to $18,000 per discharge originally projected. In addition, with the relatively low census experienced by the unit, the cost per discharge should increase which will result in more costs not being reimbursed by the Medicare program.

We understand the federal government is attempting to make a technical corrections amendment to the Act and Sunrise Healthcare (the Hospital's contractor for BHU services) is involved in the amendment process. We suggest the Hospital follow this process closely and be prepared to negotiate lower contractor fees, if possible, or perhaps eliminate this program.

We appreciate the opportunity to serve you with your accounting needs and the many courtesies extended to us while visiting at the hospital. This letter is intended solely for the benefit of management and the Board of Directors and is not intended for any other purpose.

Neuman, Richardson & Co., LLP

Neuman, Richardson & Co., L.L.P.
September 18, 1997