Physician office records
Our review of physician office records revealed that these records have not been updated timely which has delayed the monthly reconciliation process. We recommend these records be updated and maintained on a timely basis just as the hospital's records are maintained.
Hospital's response - Personnel working in the physician offices are new employees and hospital accounting personnel will discuss with the physician office personnel as to the proper procedures to follow in updating the clinic's financial records.

Dr. Baldwin contract
We understand the terms of the Baldwin contract and the actual activity are different due to some verbal modifications to the written contract. For example, the written contract calls for Baldwin to repay the advance made to him in payments of $6,000 per month for six months; however, Dr. Baldwin is currently paying $3,000 per month. Also, the contract indicates the Hospital is to purchase equipment which will remain the property of the Hospital and Baldwin is to lease the equipment. Instead, Baldwin purchased some of the equipment while other equipment and start-up costs paid by the Hospital is being paid back to the Hospital at $400 per month.

As this contract was prepared by an attorney to comply with Stark II legislation, we recommend the attorney be notified of these changes and modifications, if any, be made in writing to the contract.
Hospital's response - Hospital administration will review the contract and if amendments are necessary they will be prepared.

Future financial considerations
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 funds solvent to the year 2002. The Act particularly will decrease the reimbursement of your BHU unit by approximately 45% effective July 1, 1998. 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 eliminate this program.

Since the majority of the volume of services at the Hospital are rendered to Medicare and Medicaid patients, the results of the Act will have a dramatic effect on future operations of the Hospital. The Act comes at a time when the Hospital has a trend of financial losses coupled with declining cash balances and increasing liabilities. We recommend the Hospital immediately begin to investigate alternate funding sources to provide the necessary funds to subsidize its operations.
Hospital's response - Additional funding sources will be investigated.

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 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

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., LLP

Neuman, Richardson & Co., L.L.P.
August 27, 1997

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UNION GENERAL HOSPITAL, INC.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

June 30, 1997 and 1996

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited the accompanying balance sheets of Union General Hospital, Inc. (a Louisiana nonprofit corporation) as of June 30, 1997 and 1996, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Union General Hospital, Inc.'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 respects, the financial position of Union General Hospital, Inc. at June 30, 1997 and 1996, and the changes in its net assets and its cash flows and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 27, 1997, on our consideration of Union General Hospital Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

Neuman, Richardson & Co., L.L.P.
August 27, 1997

UNION GENERAL HOSPITAL, INC.
BALANCE SHEETS
JUNE 30, 1997 AND 1996

ASSETS

	1997	1996
Current Assets:		
Cash and cash equivalents	$ 402,054	$ 410,044
Short-term investments	169,447	615,181
Assets limited as to use	17,390	13,619
Patient accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of $ 898,743 for 1997 and $739,699 for 1996	954,605	522,000
Estimated third-party settlements	419,475	35,455
Inventories	165,900	147,216
Prepaid expenses	39,373	48,789
Total Current Assets	2,168,244	1,792,304
Assets Whose Use is Limited:		
Cash internally designated for employee benefits	60,330	36,582
Cash held in trust for insurance	42,574	56,792
	102,904	93,374
Less amount required to meet current obligations	17,390	(13,619)
Net Assets Whose Use is Limited	85,514	79,755
Property and Equipment - cost	4,658,724	4,559,125
Less accumulated depreciation	(3,018,379)	(2,872,905)
Net Property and Equipment	1,640,345	1,686,220
Other Assets	17,789	23,286
TOTAL ASSETS	$ 3,911,892	$ 3,581,565

LIABILITIES AND NET ASSETS

	1997	1996
Current Liabilities:		
Accounts payable	$ 247,388	$ 158,636
Accrued payroll liabilities	103,080	87,072
Accrued compensated absences	78,168	69,649
Interest payable	222	0
Notes payable	65,000	0
Total Current Liabilities	493,858	315,357
Net Assets:		
Unrestricted	2,447,304	2,251,207
Temporarily restricted	970,730	1,015,001
	3,418,034	3,266,208
TOTAL LIABILITIES AND NET ASSETS	$ 3,911,892	$ 3,581,565

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF OPERATIONS
For the years ended June 30, 1997 and 1996

	1997	1996
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 5,513,987	$ 4,703,285
Other operating revenue	88,763	216,583
Total revenues, gains, and other support	5,602,750	4,919,868
Expenses:		
Salaries and benefits	2,358,739	2,254,125
Professional and contractual fees	1,464,796	1,367,192
Supplies and other	1,214,290	1,162,818
Bad debt expense	268,683	284,067
Depreciation expense	184,594	126,122
Interest expense	3,341	85
Total Expenses	5,494,443	5,194,409
	108,307	(274,541)
Other income:		
Interest income	36,532	49,872
Gain on sale of assets	4,292	-0-
Contributions received	2,695	-0-
Total Other Income	43,519	49,872
Excess of revenues over (under) expenses	151,826	(224,669)
Net assets released from restrictions for purchase of equipment	-0-	5,956
Increase (decrease) in unrestricted net assets	$ 151,826	($ 218,713)

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENTS OF CHANGES IN NET ASSETS
For the years ended June 30, 1997 and 1996

	1997	1996
Unrestricted net assets:		
Excess of revenues over (under) expenses	$ 151,826	($ 224,669)
Net assets released from restrictions for purchase of equipment	-0-	5,956
Increase (decrease) in unrestricted net assets	151,826	(218,713)
Temporarily restricted net assets:		
Contributions from Union General Hospital Auxiliary for property acquisitions	-0-	5,956
State of Louisiana grant funds received	25,000	150,714
Net assets released from restrictions	(25,000)	(156,670)
Change in temporarily restricted net assets	-0-	-0-
Increase (decrease) in net assets	$ 151,826	($ 218,713)
Net Assets, beginning of year		
As previously reported	3,266,208	2,469,920
Restatement - Note 9	0	1,015,001
As restated	3,266,208	3,484,921
Increase (decrease) in net assets	151,826	(218,713)
Net assets, end of year	$ 3,418,034	$ 3,266,208

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS
For the years ended June 30, 1997 and 1996

	1997	1996
Cash Flows From Operating Activities:		
Cash received on patients' accounts	$ 4,428,679	$ 4,424,072
Other operating revenue received	88,763	216,583
Interest received	36,532	49,872
Contributions received	2,695	-0-
Net assets released from temporarily restrictions	-0-	5,956
Interest paid	(3,119)	(85)
Cash paid in salaries and benefits	(2,334,518)	(2,232,034)
Cash paid in fees and supplies	(2,593,799)	(2,479,252)
Net Cash Used in Operating Activities	(374,767)	(14,888)
Cash Flows From Financing Activities:		
Proceeds from borrowing	85,060	-0-
Principal payments on debt	(20,000)	(5,662)
Net Cash Provided by (Used in) Financing Activities	65,000	(5,662)
Cash Flows From Investing Activities:		
Proceeds from sale of assets	9,892	-0-
Maturities of short-term investments	1,065,000	1,106,146
Cash invested in assets whose use is limited	(9,530)	(18,049)
Purchases of short-term investments	(619,266)	(800,502)
Purchases of property and equipment	(144,319)	(168,709)
Net Cash From Investing Activities	301,777	118,886
Net Increase (Decrease) in Cash and Cash Equivalents	(7,990)	98,336
Cash and Cash Equivalents - beginning of year	410,044	311,708
Cash and Cash Equivalents - end of year	$ 402,054	$ 410,044

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS - Continued
For the year ended June 30, 1997 and 1996

Reconciliation of Excess Revenues (Expenses) to Net Cash From Operating Activities:	**1997**	**1996**
Excess of revenues over (under) expenses	$ 151,826	($ 224,669)
Adjustments:		
Assets released from restrictions	-0-	5,956
Depreciation expense	184,594	126,122
Gain on sale of assets	(4,292)	-0-
Decrease (increase) in operating assets:		
Net patient receivables	(432,605)	(8,647)
Health insurance settlement	(384,020)	13,501
Inventories	(18,684)	(4,960)
Prepaid expenses	9,416	(4,717)
Other assets	5,497	5,495
Increase (decrease) in operating liabilities		
Account payable	88,752	54,940
Accrued payroll liabilities	16,008	16,127
Accrued compensated absences	8,519	5,964
Interest payable	222	-0-
Total Adjustments	(526,593)	209,781
Net Cash Used in Operating Activities	($ 374,767)	($ 14,888)

See Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Union General Hospital, Inc. (Hospital) provides outpatient emergency care, acute inpatient hospital care, skilled nursing, and home health services within Farmerville, Louisiana and the surrounding area. The Hospital is a Louisiana nonprofit corporation which has received exemption from income taxes as an organization described under section 501 (c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include provisions for income taxes.

Original hospital facilities and related expenses

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (District). The hospital facilities was originally built by the District which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair, and replace equipment as needed. The District's cost basis of these facilities is included in property and equipment with the net book value of the facilities being reported as temporarily restricted net assets. The current year's depreciation of these assets is reported as net assets released from restrictions.

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.

Patient receivables

Patient receivables are stated at the full value of all charges incurred by the patient. Allowances have been provided for the estimated uncollectible accounts and third-party contractual adjustments. 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) or market.

Prepaid expenses

Prepaid expenses are amortized on a straight-line basis over the period of the respective terms.

Short-term investments

Investments consist of certificates of deposit with maturities of 90 days and older at the date of purchase. The related accrued interest receivable is also included in the investment amounts reflected in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets limited as to use
Assets limited as to use primarily include cash designated by the board for the payment of employee benefits and required balances of cash to be held on deposit with the Louisiana Hospital Association for workers' compensation, malpractice and general liability coverages. The board maintains direct control of the funds set aside for employee benefits and may at its discretion subsequently use these fund for other purposes.

Property and equipment
Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are place in service.

Temporarily and permanently restricted net assets
Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose such as the original hospital facilities discussed above. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. At June 30, 1997, there were no permanently restricted net assets.

Net patient service revenue
The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements includes prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the 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.

Indigent care
The Hospital provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as indigent care, they are not reported in net patient revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents

Cash and cash equivalents include all cash on hand and in banks, having original maturities of 90 days or less. Investments with original maturities in excess of 90 days are classified as short-term investments. Cash and cash equivalents exclude those whose use is limited.

NOTE 2 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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 final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through 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 of its beneficiaries. No changes were made to the outpatient reimbursement. The Hospital Medicaid cost reports have been settled by the Medicaid fiscal intermediary through 1991.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. A summary of net patient revenue is as follows:

	1997	1996
Inpatient charges	$ 5,689,364	$ 5,907,485
Outpatient charges	2,506,128	2,493,344
Total Charges	8,195,492	8,400,829
Medicine and Medicaid contractual adjustments	(2,614,472)	(3,594,483)
Indigent and Hill-Burton free care	(67,033)	(103,062)
Net Patient Revenue	$ 5,513,987	$ 4,703,284

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is stated on the basis of cost or fair market value at date of donation. Depreciation is provided using the straight-line method in amounts sufficient to amortize the cost or other basis over the estimated useful lives of the depreciable assets. Expenditures which materially increase values, change capacities or extent useful lives are capitalized. Routine maintenance and repair items are charged to current operations. A summary of the accounts and the related accumulated depreciation follows:

	1997		1996	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land improvements	$ 2,618	$ 1,013	$ 2,618	$ 833
Building	278,220	70,595	257,931	52,148
Furniture & equipment	1,081,523	621,138	1,002,213	538,562
Facilities leased from District	3,296,363	2,325,633	3,296,363	2,281,362
Totals	$ 4,658,724	$ 3,018,379	$ 4,559,125	$ 2,872,905

Under the terms of the operating agreement with the District, all equipment acquired by the Hospital through purchase or by gift shall be donated to the District if and when the Hospital ceases to operate the facility.

NOTE 4 - CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During the year ended June 30, 1997 and 1996, approximately $ 67,000 and $ 103,000, respectively, in charges were forgone at an estimated cost to the Hospital of approximately $ 43,000 and $ 60,000, respectively.

NOTE 5 - PENSION PLAN

The Hospital has a discretionary contribution plan covering substantially all of its employees with over 1,040 hours of service. Contributions by the Hospital, if any are up to the discretion of the Board. During the years ended June 30, 1997 and 1996, the Hospital did not contribute to the plan.

NOTE 6 - OFF BALANCE SHEET RISKS AND CREDIT CONCENTRATIONS

Concentrations of credit

The Hospital is located in Farmerville, 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 68% and 71%, respectively, of patient accounts receivable was related to 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.

Volume of services

The hospital 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.

Professional liability

The Hospital participates in the Louisiana Patients Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides \$ 400,000 in coverage per occurrence above the first \$ 100,000 per occurrence for which the Hospital is at risk. There is not limitation placed on the number of occurrences covered. Funds are secured by either the \$ 100,000 FDIC insurance coverage or bank-owned securities held in safekeeping for the benefit of the Hospital.

Membership in the Louisiana Hospital Association Trust Fund provides additional coverage for the professional medical malpractice liability for the Hospital. Premiums paid to the fund are based on the loss experience of the Hospital. The portion of the funds that is refundable to the Hospital is included in assets whose use is limited.

Workers compensation

The Hospital participates in the Louisiana Hospital Association's self-insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rate share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in board designated funds.

Hill-Burton obligation

As a result of the District receiving a federal Hill-Burton program grant of \$ 660,000, the Hospital is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. Uncompensated care must be provided by the Hospital at least through fiscal year ended in 1997 which is 25 years from the date of the grant. The Hospital may be required to furnish additional amounts and periods of uncompensated care as a result of third party audits and retroactive determinations. The amount of such adjustments, if any, cannot be determined.

NOTE 7 - CONTRACTUAL COMMITMENTS

The Hospital has entered into noncancellable maintenance agreements for medical equipment that require the Hospital to pay monthly amounts to the expiration of the agreements. In addition the Hospital has an operating lease commitment for the rental of IV pumps as of June 30, 1997. The following is a summary of the approximate remaining portion of these commitments.

Year Ending June 30,	Maintenance	Lease
1998	$39,000	$10,200
1999	39,000	10,200
2000	9,800	10,200
2001	-0-	10,200
2001	-0-	4,200

In 1994, the Hospital entered into an agreement with two physicians whereby the Hospital employed each physician to operate separate clinics for a period of two years beginning September 1, 1994. When these initial two physicians' contracts expired in August, 1996, they left the Hospital's service area and were replace with two additional physicians beginning September 1, 1996. The current physicians contracts are for two years and expire in August and September, 1999. Under these arrangements, the Hospital has agreed to pay the physician salaries and all expenses in connection with their clinic practices in exchange for receiving the physician revenues produced through their practices. The remaining salary and benefit commitment to the physicians under these arrangements at June 30, 1997 is as follows:

Year Ending June 30,	Payments
1998	$ 279,900
1999	279,900
2000	58,300

In 1995, the Hospital entered into an agreement with another physician to provide week-end emergency room physician services at a guaranteed annual salary. In August, 1996, the physician left the Hospital's service area and was replace with another physician to provide the same emergency room services under a guaranteed salary contract which expires in July, 1999. Under these arrangements, the Hospital receives all emergency room revenue generated by the physician during the contract period. This arrangement replaced services which were earlier contracted by the Hospital. At June 30, 1996, the remaining commitment under this arrangement is approximately as follows:

Years Ending June 30,	Payments
1998	$ 149,400
1999	134,600

Effective February 28, 1995, the Hospital entered into a five-year contract with Sunrise Healthcare for the management of a behavioral health unit. Under the terms of the contract, the hospital will provide 8 contiguous beds of the hospital to Sunrise for the treatment of psychiatric disorders beginning July 1, 1995. All patient charges generated by the behavioral health unit belong to the Hospital. Normal

NOTE 7 - CONTRACTUAL COMMITMENTS - Continued

operating expenses of the unit will be paid by Sunrise with the Hospital paying $ 475 per patient day to Sunrise for management of the unit. Hospital management expects the revenue produced by the unit to more than offset the management fees paid to Sunrise Healthcare. For the years ended June 30, 1997 and 1996, the Hospital paid Sunrise Healthcare $ 1,209,000 and $ 1,059,000, respectively under this arrangement.

NOTE 8 - GRANT FUNDS

In July, 1995, the Hospital received $ 100,000 in grant funds from the State of Louisiana to be used as a physician salary subsidy for two physicians. In addition to the above grant, the Hospital received $50,714 in January, 1996 and $25,000 in February, 1997, from the State of Louisiana to be used to subsidize emergency room expenses. These grants are included in other operating revenue in the statement of operations.

NOTE 9 - RESTATEMENT OF NET ASSETS

In 1996, the Hospital elected to adopt Statement of Financial Accounting Standards (SFAS) 116, "Accounting for Contributions Received and Contributions Made," and SFAS 117, "Financial Statements of Not-for-Profit Organizations."

Under SFAS 116, the Hospital recorded the value of the land, land improvements, buildings and certain equipment previously leased from the District. These assets were previously not included in the Hospital's financial statements. The recording of these assets has resulted in an increase in property and equipment of $ 3,296,363 and accumulated depreciation of $ 2,872,905. This resulted in a restatement of temporarily restricted net assets of $ 1,015,001.

Under SFAS 117, the Hospital is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. This reclassification had no effect on the change in net assets for 1996.

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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
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited the financial statements of Union General Hospital, Inc. (A nonprofit organization) as of and for the year ended June 30, 1997, and have issued our report thereon dated August 27, 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.

We noted certain matters involving the internal control structure and its operations 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.

Continued dependence upon governmental programs

In the prior year, we indicated certain ideas to consider in becoming less dependent upon the Medicare and Medicaid programs. Since the Hospital cannot admit or discharge patients, it is rather difficult to implement some of these programs; however we feel it is helpful to repeat some of the suggestions made in the previous year. With this in mind, the only methods of being able to create a profit in the future years, under the present reimbursement guidelines, is a combination of the following ideas. Some of which appear to be more theoretical than practical, as you can see.

- ◊ Increase the non-Medicare and non-Medicaid patients using the hospital. This is very difficult as the population served will need to be educated on the hospital's needs and the patients themselves must change physicians. Since the hospital cannot admit or discharge patients, this involves not only the population changing to local physicians but the physicians changing their patient mix which is unlikely.
- ◊ Since the BHU has completed it base year, the target under TEFRA should be approximately $18,000 to $19,000 per discharge; however, the Balanced Budget Act of 1997, reduced the TEFRA amount to $10,188 for fiscal years beginning October 1, 1997. For your hospital, these reduced rates per discharge are effective July 1, 1998. Before July, 1998 the Hospital needs to either revise the contract with Sunrise to significantly reduce costs or discontinue this program.

  Obviously, operating costs can be reduced however, the hospital average costs appear to be in line with the peer averages. Within all organizations, costs can be trimmed: however, we do not believe that there is enough excess costs to make a significant impact on the bottom line unless the hospital is willing to reduce services beyond those services it has already eliminated.
- ◊ The salaried physicians coming to the area could experience an increased growth and begin to utilize the hospital services more. Generally speaking, our analysis of their financial impact on operations has been negative. .
- ◊ Additional funding could be provided to the hospital through grants, taxes, endowments, etc.
- ◊ Improve collections on the salaried physicians' accounts receivable.
- ◊ Increase outpatient therapy services with high private patient utilization.

Hospital's response - Attempts will be made to improve the salaried physicians' collections and we will investigate alternate funding sources. The remainder of the items cannot be controlled by hospital administration.

Equipment purchases exceeding $10,000

Since the board of director meeting of July 7, 1992, , board approval is required for all property additions exceeding $10,000. In fiscal year ended June 30, 1997, we noted the following major property expenditures were not approved by the board.

- ◊ Disbursement to M & M Mechanical Contractors for oxygen equipment in the amount of $18,843.
- ◊ Disbursement to Eugene McLain Construction for the construction of handicap bathroom in the amount of $11,356.

Hospital's response - This was an oversight and the board has been made aware of these expenditures.

Home health accounts receivable

An accounts receivable aging report or detailed trial balance of home health accounts were not maintained during the year. As a result, the detail trial balance was not reconciled to the general ledger on a monthly basis. The monthly reconcilement process enhances the timely discovery of any potential adjustments or incorrect postings occurring during the year. The aging reports also assist in the collection process which, in turn, enhances cash flow. We recommend the printing, retention, and reconcilement of these reports be performed monthly.

Hospital's response - Home health personnel have been made aware of this deficiency and the aging report will be printed each month and reconciled to the general ledger.