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FINANCIAL STATEMENTS

HOMER MEMORIAL HOSPITAL

June 30, 1999 and 1998

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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* 20

Data Collection Form 22

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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, 1999 and 1998. 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 respects, the financial position of Homer Memorial Hospital as of June 30, 1999 and 1998, 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 22, 1999, 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 22, 1999

HOMER MEMORIAL HOSPITAL
BALANCE SHEETS
June 30, 1999 and 1998

ASSETS	1999	1998
Current Assets:		
Cash and cash equivalents	$ 146,206	$ 362,597
Patient receivables, less allowance for contractual adjustment & doubtful accounts of $1,704,232 - 1999 and $1,704,991 - 1998	3,304,273	2,281,203
Educational contracts receivable	228,158	212,833
Inventories	397,692	359,004
Prepaid expenses	75,024	93,632
Due from health insurance stop/loss carrier	27,032	-0-
Due from health insurance programs	-0-	466,195
Assets whose use is limited for current liabilities	112,239	105,567
Total Current Assets	4,290,624	3,881,031
Assets Whose Use is Limited:		
By board:		
For capital improvements	27,835	27,116
For self-funded insurance	15,115	14,929
For education purposes	11,024	13,287
For contingencies	1,427,246	2,822,943
Under bond indenture agreement	441,382	450,711
	1,922,602	3,328,986
Less portion classified as current	(112,239)	(105,567)
Net Assets Whose Use is Limited	1,810,363	3,223,419
Property and Equipment:		
Land and land improvements	139,621	132,968
Buildings and fixed equipment	6,237,643	5,791,508
Major moveable equipment	3,589,285	3,278,962
Equipment under capital lease	277,658	303,910
	10,244,207	9,507,348
Less accumulated depreciation and amortization	(6,420,659)	(5,903,369)
Net Property and Equipment	3,823,548	3,603,979
Other Assets:		
Educational contracts receivable	296,338	286,668
Receivable from physician	171,468	171,468
Rental property, less accumulated depreciation of $ 23,972 for 1999 and $ 17,710 for 1998	58,219	46,844
Health services start-up costs	56,078	84,117
Total Other Assets	582,103	589,097
TOTAL ASSETS	$ 10,506,638	$ 11,297,526

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
BALANCE SHEETS - Continued
June 30, 1999 and 1998

LIABILITIES AND FUND BALANCE	**1999**	**1998**
Current Liabilities:		
Accounts payable	$ 107,214	$ 90,710
Accrued payroll and benefits	273,614	414,052
Accrued uncompensated absences	135,686	218,296
Due to health insurance programs	258,537	-0-
Current portion of long-term debt	139,291	145,668
Total Current Liabilities	914,342	868,726
Long-Term Debt:		
Capital lease obligations	158,990	212,719
Hospital revenue bonds payable	3,083,478	3,186,429
	3,242,468	3,399,148
Less current portion	(139,291)	(145,668)
Net Long-Term Debt	3,103,177	3,253,480
Fund Balance:		
Unrestricted	6,489,119	7,175,320
Total Fund Balance	6,489,119	7,175,320
TOTAL LIABILITIES AND FUND BALANCE	$ 10,506,638	$ 11,297,526

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF REVENUES AND EXPENSES
Years Ended June 30, 1999 and 1998,

	1999	1998
Net Patient Service Revenue	$ 10,078,078	$ 12,063,440
Other Operating Revenue	72,133	71,801
Total Revenue	10,150,211	12,135,241
Operating Expenses:		
Salaries and employee benefits	6,269,241	6,559,292
Professional and contractual fees	1,045,428	1,384,935
Supplies and other expenses	3,028,815	3,336,723
Bad debt expense	315,052	708,158
Depreciation	523,552	595,274
Interest	197,761	204,595
Total Operating Expenses	11,379,849	12,788,977
Loss From Operations	(1,229,638)	(653,736)
Non-Operating Revenue:		
Advalorem tax revenue	388,752	358,855
Investment income	154,685	207,619
Total Non-Operating Revenue	543,437	566,474
Excess of Expenses Over Revenues	($ 686,201)	($ 87,262)

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCE
Years Ended June 30, 1999 and 1998

	Unrestricted	Temporarily Restricted
Balance, June 30, 1997	$ 7,242,896	$ 19,686
Purchase of equipment with restricted funds	19,686	(19,686)
Excess of expenses over revenues	(87,262)	
Balance, June 30, 1998	7,175,320	$ -0-
Excess of expenses over revenues	(686,201)	
Balance, June 30, 1999	$ 6,489,119	$ -0-

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 1999 and 1998

	1999	1998
From Operating Activities:		
Cash received on patients' accounts	$ 9,464,688	$ 12,179,594
Interest received	143,523	139,979
Cash received from sale of meals, vending, etc.	72,133	71,801
Cash paid in salaries and benefits	(6,519,321)	(6,583,423)
Cash paid in fees and supplies	(4,049,780)	(4,940,004)
Cash paid in interest expense	(197,761)	(206,239)
Net Cash Provided (Used)	(1,086,518)	661,708
From Non-Capital Financing Activities:		
Taxes received	388,752	358,855
From Capital and Related Financing Activities:		
Principal payments on long-term debt	(156,679)	(106,406)
From Investing Activities:		
Educational contract advances, net of cancellations & payments	(13,832)	3,193
Advance on physician contract	-0-	(141,468)
Decrease (increase) in assets whose use is limited	1,406,384	(759,093)
Purchase of property and equipment	(754,498)	(128,771)
Net Cash Provided (Used)	638,054	(1,026,139)
Net Increase (Decrease) in Cash and Cash Equivalents	(216,391)	(111,982)
Cash and Cash Equivalents:		
Beginning of year	362,597	474,579
End of year	$ 146,206	$ 362,597

See Notes to Financial Statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
Years Ended June 30, 1999 and 1998

	1999	1998
Reconciliation of Net Income to Net Cash Flows From Operating Activities		
Loss from operations:	(1,229,638)	($ 653,736)
Adjustments:		
Depreciation	523,552	595,274
Provision for bad debts	315,052	708,158
Interest received	143,523	139,979
Decrease (increase) in operating assets:		
Gross patient accounts receivable, net of bad debts	(1,338,122)	136,207
Inventories	(38,688)	(82,135)
Prepaid expenses	18,608	(16,553)
Due from health insurance stop/loss carrier	(27,032)	-0-
Due from health insurance programs	466,195	(20,053)
Start-up costs	28,039	28,038
Increase (decrease) in operating liabilities:		
Accounts payable	16,504	(147,696)
Accrued payroll and benefits	(140,438)	(13,953)
Accrued uncompensated absences	(82,610)	(10,178)
Due to health insurance programs	258,537	-0-
Interest payable	-0-	(1,644)
Total Adjustments	143,120	1,315,444
Net Cash Used in Operating Activities	($ 1,086,518)	$ 661,708

Supplemental Disclosures on Non-cash Financing Activities:
During 1998, the Hospital purchased equipment for $ 183,656 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. At June 30, 1999 and 1998, the Hospital had no temporarily restricted funds.

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.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

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, 1999 and 1998.

Property and Equipment

The Hospital capitalizes depreciable property and equipment valued at $500 or more, with a useful life greater than two years. Property and equipment is recorded at cost, if purchased, or fair market value, if donated, 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, 1999 and 1998, 69% and 79%, 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:

<u>Medicare</u> - 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 non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

NOTE 2 - HEALTH INSURANCE PROGRAM REIMBURSEMENT - Continued

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, 1997.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at 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. 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, 1995.

NOTE 3 - NET PATIENT SERVICE REVENUE

The following is a summary of net patient service revenue for the years ended June 30, 1999 and 1998:

	1999	1998
Inpatient charges	$ 9,983,653	$ 10,216,588
Outpatient charges	4,357,494	6,565,849
Total patient charges	14,341,147	16,782,437
Medicare and Medicaid contractual adjustments	(4,087,251)	(4,776,529)
Medicaid disproportionate payments	361,973	520,021
Charity care charges forgone	(29,341)	(75,586)
Administrative, PPO, and other adjustments	(508,450)	(386,903)
Net patient service revenue	$ 10,078,078	$ 12,063,440

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.

NOTE 4 - INDIGENT CARE - Continued

The following information measures the level of charity care provided during the years ended June 30, 1999 and 1998:

	1999	1998
Charges forgone based on established rates	$ 29,341	$ 75,586
Estimated costs and expenses incurred to provide charity care	$ 23,000	$ 54,000

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, 1999 and 1998:

	1999	1998
Balance, beginning of year	$ 499,501	$ 435,054
Educational advances	28,287	46,805
Assessment of interest on balances due	19,878	67,640
Change in allowance for doubtful collections	7,561	-0-
Cancellation and repayments of contracts	(22,016)	(49,998)
Payments of interest due	(8,715)	-0-
Balance, end of year	524,496	$ 499,501

NOTE 6 - LEASE OBLIGATIONS

Capital leases

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

NOTE 6 - LEASE OBLIGATIONS - Continued

Year Ending June 30,	Minimum Payments
2000	$ 53,655
2001	44,160
2002	44,160
2003	44,160
Total capital lease payments	186,135
Less amount representing interest	(27,145)
	158,990
Current maturities	(42,168)
Long-term maturities	$ 116,822

Operating leases

The Hospital leases various facilities within the area in providing home health 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 1999 and 1998, lease expense under these arrangements was approximately $220,000 and $104,000 respectively, with the monthly lease obligation at June 30, 1999, being $6,800. The Hospital has also entered into an operating lease for lab equipment with a monthly lease amount of approximately $266. During 1999, the Hospital paid $2,664 toward this commitment. Future annual minimum lease payments on the operating leases having terms beyond one month are as follows:

Year Ending June 30,	Payments
2000	$ 3,197
2001	3,197
2002	3,197
2003	3,197
2004	3,197

NOTE 7 - HOSPITAL REVENUE BONDS

Hospital revenue bonds payable consists 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.

NOTE 7 - HOSPITAL REVENUE BONDS - Continued

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, 1998 is as follows:

	Actual	Required	Excess
Reserve fund	$ 287,185	$ 250,240	$ 36,946
Contingency fund	154,197	126,564	27,633
Total	$ 441,382	$ 376,804	$ 64,579

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:

Fiscal Year	Principal	Interest	Total
2000	$ 97,123	$ 186,167	$ 283,290
2001	103,242	180,048	283,290
2002	109,746	173,544	283,290
2003	116,660	166,630	283,290
2004	124,010	159,280	283,290

NOTE 8 - 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, 1999, was approximately $4,580,000; the Hospital's total payroll was approximately $5,433,000.

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.

NOTE 8 - PENSION PLAN - Continued

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 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.

NOTE 8 - PENSION PLAN - Continued

The System also receives 1/4 of 1% of advalorem 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, 1999 was approximately $686,000, which consisted of $263,000 from the Hospital and $423,000 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, 1998, (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 $ 450 million. The System's net assets available for benefits on that date (valued at cost) was approximately $497 million, with an unfunded pension benefit obligation of $70 million. The Hospital's contribution for the year ended June 30, 1998, represented approximately 9% 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, 1999 and 1998, approximately 41% and 52%, 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.

NOTE 9 - OFF BALANCE SHEET RISKS - Continued

Cash balances
At June 30, 1999, the aggregate carrying amount of cash, including assets whose use is limited, was $2,068,808 that was invested in three banks and the Louisiana Asset Management Pool. The corresponding bank and pool balances totaled $2,058,887. 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, 1999. All funds are fully secured by either FDIC coverage or securities pledged against the deposits, except for $291,299 at Regions Bank in excess of FDIC coverage and security pledges.

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.

NOTE 11 - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Hospital's operations as early as 1999.

The Hospital has completed an inventory of computer systems and other equipment necessary to conducting the Hospital's operations. Based on this inventory, the Hospital has identified such systems as being financial reporting, payroll, and medical equipment.

- The financial reporting and payroll systems have been assessed, remediated, tested and validated.
- The Hospital uses various items of medical equipment. This equipment has all been assessed, remediated, and tested and validated.

At June 30, 1999, the Hospital has spent approximately $ 150,000 in replacing various software systems.

NOTE 11 - YEAR 2000 ISSUE - Continued

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Hospital is or will be Year 2000 ready, that the Hospital's remediation efforts will be successful in whole or in part, or that parties with whom the Hospital does business will be Year 2000 ready.

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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, 1999, and have issued our report thereon dated September 22, 1999. 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 Homer Memorial Hospital'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 an instance of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the following paragraphs:

Issue:
The Hospital has received an advisory opinion from the Louisiana Board of Ethics indicating the existence of a Louisiana Code of Governmental Ethics violation regarding an educational contract with Dr. Scott Haynes, whose father, Dr. Don Haynes, is presently on the Hospital's Board.

Transaction Details:
Scott Haynes currently receives $1,000 a month for educational aid in return for which his obligation to practice in Claiborne Parrish for a period of five years. This contractual commitment was began in 1993, when his father was not on the board, and has continued to the current year. During 1999 and 1998, Scott received $12,000 for each respective year as part of this contractual commitment.

Noncompliance Details:
It is the opinion of the Louisiana Board of Ethics that this transaction is in violation of Section 1113B and Section 1112B(1) of the Louisiana Code of Governmental Ethics. It is the recommendation of the Louisiana Board of Ethics that either the Hospital discontinue these payments to Dr. Scott Haynes, or Dr. Don Haynes resign his position on the Hospital's Board.

Recommendations:
The Hospital should either comply with the recommendations of the Louisiana Board of Ethics, or challenge this advisory opinion through legal proceedings.

Hospital's Response:
The Hospital Board is planning to decide at the December, 1999 meeting as to what actions to take in this matter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homer Memorial Hospital'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 22, 1999.

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.
September 22, 1999

LEGISLATIVE AUDITOR
BATON ROUGE LA 70804

DATA COLLECTION FORM

FOR REPORTING ON AUDITS OF STATE AND LOCAL GOVERNMENT AND QUASIPUBLIC ENTITIES

OMB Form 0348-0057 may be used as a substitute for this form.

Date Submitted 12 / 22 / 99

RETURN to: Legislative Auditor
Attn: Engagement Processing
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

1. Fiscal Year Ending Date For This Submission: 6/30/99

2. Type of Report:
- [X] Single Audit
- [ ] GAO Audit Standards Audit
- [ ] Compilation
- [ ] Compilation/Attestation
- [ ] Program Audit
- [ ] Other

3. Audit Period Covered
- [X] Annual
- [ ] Biennial
- [ ] Other ________ to ________

4. AUDITEE INFORMATION

Auditee Name: Homer Memorial Hospital
Street Address (Number and Street): 620 East College
Mailing Address (PO No.):
City: Homer State: LA Zip: 71040
Auditee Contact
Name: J. Larry Jordan Title: Administrator
Telephone: (318) 927-2024 Fax: (318) 927-3158
Email (Optional):

5. AUDITOR INFORMATION

Firm Name: Neuman, Richardson & Co., L.L.P.
b. Street Address (Number and Street): 1511 Judson Rd. Suite A
Mailing Address (PO No.):
City: Longview, State: TX Zip: 75601
c. Auditor Contact
Name: Jerry G. Richardson Title: Partner
Telephone: (903) 758-9600 Fax: (903) 758-9119
Email (Optional): NRCPA@internetwork.net

Component Units Included Within the Report and for Which No Separate Report Will Be Issued:

If there are no modifications to the auditor's financial opinion, no reportable conditions, no material weaknesses, no reported instances of noncompliance, and no management letter, check this box; do not complete the rest of the form.
- [ ]

6. FINANCIAL STATEMENTS

a. Type of audit report on financial statements. [ ] Not Applicable
- [X] Unqualified Opinion [ ] Qualified Opinion [ ] Adverse Opinion [ ] Disclaimer of Opinion

b. Is a 'going concern' explanatory paragraph included in the audit report? [ ] Yes [X] No

c. Do any of the funds have deficit fund balances? [ ] Yes [X] No

d. Is there a related party footnote? [ ] Yes [X] No

7. INTERNAL CONTROL

Do the comments on internal control include: [ ] material weaknesses [ ] reportable conditions [X] not applicable

8. COMPLIANCE

Do the comments on compliance include: [X] illegal acts [ ] fraud/criminal acts [ ] not applicable

9. MANAGEMENT LETTER (Finding Caption and No.)

	Resolved		
Payroll Accounting, Deposit risk,	[X] Yes	[ ] No	[ ] No Longer Applicable
fixed Assets, Cost report review &	[X] Yes	[ ] No	[ ] No Longer Applicable
expense, Physician LOC & LA code of	[X] Yes	[ ] No	[ ] No Longer Applicable

10. SCHEDULE OF CURRENT YEAR FINDINGS/QUESTIONED COSTS (Finding Caption and No.)

		Resolved		
ethics	$	[ ] Yes	[ ] No	[ ] No Longer Applicable
	$	[ ] Yes	[ ] No	[ ] No Longer Applicable
Dr. Scott Haynes	$12,000	[X] Yes	[ ] No	[ ] No Longer Applicable
	$	[ ] Yes	[ ] No	[ ] No Longer Applicable
	$	[ ] Yes	[ ] No	[ ] No Longer Applicable
	$	[ ] Yes	[ ] No	[ ] No Longer Applicable

Do any findings address nepotism, ethics violations or related party transactions? [X] Yes [ ] No

Do any findings address violation of bond indenture covenants? [ ] Yes [X] No

	AUDITEE SIGNATURE ____________	Date ____________
FOR USE BY LEGISLATIVE AUDITOR		
Agency No ________	Proj. No. ____________	Firm No. ________

FOR USE BY LEGISLATIVE AUDITOR

Date Report Received: ____________ Date Processed: ____________

Legislative Audit Advisory Council:	Are there unresolved findings listed below?	Yes or No
District Attorney:	Are there findings of criminal acts?	Yes or No
Board of Ethics:	Are there findings of ethics, nepotism, or related parties?	Yes or No
State Bond Commission (SBC):	Are there any findings relating to violations of bond indentures?	Yes or No
	Does the report express going-concern reservations?	Yes or No
	Does the entity have a deficit greater than 5% of revenue? If so, identify the page(s) No(s).____________	Yes or No
High Profile:	Are there any significant findings?	Yes or No

Report: Approved for Release ____________ Date: __.__.__.__. Rank A B C D

(A=No Comments; B=Management Letter Comments Only; C=Control/Compliance Report(s) Comments; D=Criminal/Fraud Acts)
Note: For grading purposes, schedules of immaterial findings are treated as a management letter

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District Attorney ________	1	Quality Assurance	1
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Fax 903/758-1800

NEUMAN, RICHARDSON & CO., L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Jim L. Neuman, CPA
Jerry G. Richardson, CPA
---ooOoo---
Stephen P. Duck, CPA
Joseph S. Kennedy, CPA
Johnnie A. Tyler, CPA

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, 1999, 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.

Payroll Accounting

Comments:
At the close of field work, we noted that the payroll cash account and the self-funded insurance cash account had not been reconciled for several months. We also noted that the 941 reconciliation to the general ledger was out of balance. It is our understanding that 941's as filed are correct and that these problems are the result of issues still outstanding related to the computer system conversion in May, 1999.

Recommendations:
The Hospital should collaborate with its computer software contractor to get these payroll system software issues resolved and arrive at properly reconciled general ledger amounts. Once this is accomplished, these cash accounts should be properly reconciled on a monthly basis, and the 941 reconciliation should be prepared quarterly.

Hospital's Response:
The Hospital does intend to contact its computer contractor to get these issues resolved.

Deposit Risk

Comments:
At June 30, 1999, we noted that $291,299, of the Hospital's funds deposited at Regions Bank, were not secured by either FDIC coverage or bank pledged securities.

Recommendations:
The Hospital should bring this deposit risk to the bank's attention and come to an understanding that their deposited funds will be more adequately secured in the future.

Hospital's Response:
The Hospital has fully secured these deposits subsequent to June 30, 1999.

Fixed Asset Capitalization Policy

Comments:
The Hospital currently capitalizes fixed asset amounts with a cost of $500 or more and a useful life of two years or greater, while Medicare has changed its recommended capitalization policy to fixed asset amounts with a cost of $5,000 or greater.

Recommendation:
The Hospital should consider changing its capitalization policy to match the Medicare recommended capitalization policy.

Hospital's Response:
The change in capitalization policy will be brought before the board of directors.

Cost Report Revenue and Expense Reclassifications

Comments:
In the preparation of the Hospital's June 30, 1999 Medicare cost report, it was necessary to make various reclassification entries to move billable medical supply revenue and expense from various cost centers, to the billable medical supply cost center. Had these entries not been made, the Hospital would have not been able to submit a properly prepared cost report.

Recommendation:
The Hospital should begin to treat its billable medical supply (central supply) department in the same manner as it treats pharmacy. Revenue and expense should remain in that cost center and not be moved to other departments.

Hospital's Response:
The Hospital has made these changes.

Physician Line of Credit and Other Debt

Comments:

On August 1, 1998, the Hospital amended its agreement with Dr. Elizabeth Doze. In this amendment, the salary and education guarantees to Dr. Doze were totally forgiven and the line of credit was set up to be paid back with no interest. The amount of debt forgiven less value for time worked is required to be reported under IRS guidelines.

Recommendation:

The Hospital should file a 1099 for forgiveness of debt for the appropriate amounts and years. The Hospital should also consider obtaining written legal advice indicating compliance with Stark II laws.

Hospital's Response:

Forms 1099 will be completed for both 1998 and 1999.

Louisiana Code of Governmental Ethics

Comments:

The Hospital has received an advisory opinion from the Louisiana Board of Ethics indicating the existence of a Louisiana Code of Governmental Ethics violation regarding an educational contract with Dr. Scott Haynes, whose father, Dr. Don Haynes, is presently on the Hospital's Board.

Scott Haynes currently receives $1,000 a month for educational aid in return for his obligation to practice in Claiborne Parrish for a period of five years. This contractual commitment was began in 1993, when his father was not on the board, and has continued to the current year. During 1999 and 1998, Scott received $12,000 for each respective year as part of this contractual commitment.

It is the opinion of the Louisiana Board of Ethics that this transaction is in violation of Section 1113B and Section 1112B(1) of the Louisiana Code of Governmental Ethics. It is the recommendation of the Louisiana Board of Ethics that either the Hospital discontinue these payments to Dr. Scott Haynes, or Dr. Don Haynes resign his position on the Hospital's Board.

Recommendations:

The Hospital should either comply with the recommendations of the Louisiana Board of Ethics, or challenge this advisory opinion through legal proceedings.

Hospital's Response:

The Hospital Board is planning to decide at the December, 1999 meeting as to what actions to take in this matter.

Summary of Prior Year Findings

We have reviewed the Hospital's responses to items noted in the previous year's management letter concerning (1) board approval of fixed asset additions; (2) board approval of specific transactions; (3) cost report statistics; and (4) Y2K compliance. Based on our review, we believe the Hospital has responded appropriately to these findings.

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 22, 1999