

11/29/99
92100 10 000 03

**OFFICIAL
FILE COPY**
DO NOT SEND OUT
(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

--ooOoo--

UNION GENERAL HOSPITAL, INC.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

June 30, 1999 and 1998

--ooOoo--

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 ~~11-29-99~~

DEC 0 1 1999

--ooOoo--

CONTENTS

Financial Statements:

Independent Auditor’s Report.....	Page 3
Balance Sheets.....	4
Statements of Operations and Changes in Net Assets	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	8
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
Data Collection Form	20

--ooOoo--

1511 Judson Road, Suite A
Longview, Texas 75601
903/758-9600
Fax 903/758-1800



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

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

INDEPENDENT AUDITOR'S REPORT

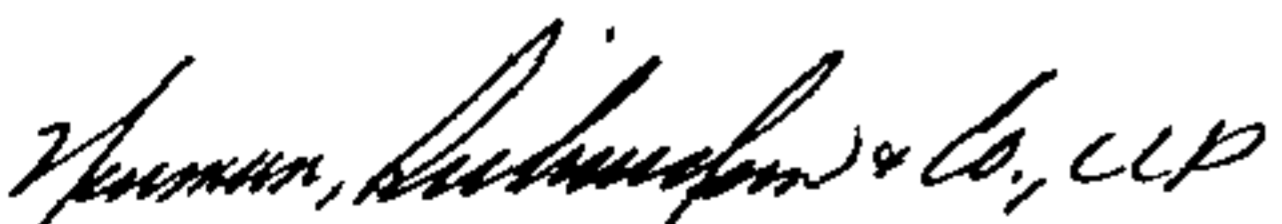
Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited the accompanying balance sheets of Union General Hospital, Inc. (a Louisiana nonprofit corporation) as of June 30, 1999 and 1998, 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, 1999 and 1998, and the changes in its net assets 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 September 8, 1999, 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.
September 8, 1999

UNION GENERAL HOSPITAL, INC.
BALANCE SHEETS
JUNE 30, 1999 AND 1998

ASSETS

	1999	1998
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 126,055	\$ 535,565
Short-term investments	123,237	212,589
Assets limited as to use	20,083	18,946
Accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of \$ 743,000 for 1999 and \$ 631,776 for 1998	936,913	877,425
Estimated third-party settlements	378,678	189,234
Inventories	190,072	170,648
Prepaid expenses	44,281	29,895
Total Current Assets	<u>1,819,319</u>	<u>2,034,302</u>
<i>Assets Whose Use is Limited:</i>		
Cash held in deposit by lender	1,137	-0-
Cash internally designated for employee benefits	65,649	62,670
Cash held in trust for insurance	108,924	54,802
	<u>175,710</u>	<u>117,472</u>
Less amount required to meet current obligations	(20,083)	(18,946)
Net Assets Whose Use is Limited	<u>155,627</u>	<u>98,526</u>
<i>Property and Equipment - cost</i>	4,898,705	4,805,001
Less accumulated depreciation	(3,313,526)	(3,144,029)
Net Property and Equipment	<u>1,585,179</u>	<u>1,660,972</u>
<i>Other Assets</i>	6,806	12,303
TOTAL ASSETS	<u><u>\$ 3,566,931</u></u>	<u><u>\$ 3,806,103</u></u>

LIABILITIES AND NET ASSETS

<i>Current Liabilities:</i>		
Accounts payable	\$ 395,173	\$ 131,361
Accrued payroll liabilities	112,348	112,794
Accrued compensated absences	71,037	76,357
Interest payable	97	219
Notes payable, current portion	36,727	44,906
Total Current Liabilities	<u>615,382</u>	<u>365,637</u>
<i>Long-term Debt, net of current portion</i>	22,369	37,603
<i>Net Assets:</i>		
Unrestricted	2,046,914	2,481,046
Temporarily restricted	882,266	921,817
	<u>2,929,180</u>	<u>3,402,863</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,566,931</u></u>	<u><u>\$ 3,806,103</u></u>

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 1999 and 1998

	1999	1998
UNRESTRICTED NET ASSETS		
<i>Revenues, Gains and Other Support:</i>		
Net patient service revenue	\$ 5,193,543	\$ 5,477,432
Other operating revenue	68,519	71,776
Total Revenues, Gains, and Other Support	<u>5,262,062</u>	<u>5,549,208</u>
<i>Net Assets Released From Restrictions</i>	39,551	48,912
<i>Expenses:</i>		
Salaries and benefits	2,352,485	2,402,090
Professional and contractual fees	1,478,762	1,404,820
Supplies and other	1,294,034	1,200,589
Bad debt expense	463,502	407,373
Depreciation expense	169,497	181,002
Interest expense	5,050	7,621
Total Expenses	<u>5,763,330</u>	<u>5,603,495</u>
Loss From Operations	(<u>461,717</u>)	(<u>5,375</u>)
<i>Other income:</i>		
Interest income	27,575	29,064
Gain on sale of assets	-0-	3,150
Contributions received	-0-	6,892
Total Other Income	<u>27,575</u>	<u>39,106</u>
<i>Increase/(Decrease) in Unrestricted Net Assets</i>	(<u>434,142</u>)	<u>33,731</u>
TEMPORARILY RESTRICTED NET ASSETS		
<i>Net Assets Released From Restriction</i>	(39,551)	(48,912)
<i>Decrease in Net Assets</i>	(<u>473,693</u>)	(<u>15,181</u>)
<i>Net Assets, beginning of year</i>	3,402,863	3,418,034
Membership certificate issued	10	10
<i>Net Assets, end of year</i>	<u><u>\$ 2,929,180</u></u>	<u><u>\$ 3,402,863</u></u>

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS
For the years ended June 30, 1999 and 1998

	1999	1998
<i>Cash Flows From Operating Activities:</i>		
Cash received on patients' accounts	\$ 4,481,109	\$ 5,377,480
Other operating revenue received	68,519	71,776
Interest received	27,575	29,064
Contributions received	-0-	6,892
Interest paid	(5,172)	(7,624)
Cash paid in salaries and benefits	(2,358,251)	(2,394,187)
Cash paid in fees and supplies	(2,537,297)	(2,711,220)
Net Cash Provided by (Used in) in Operating Activities	(323,517)	372,181
 <i>Cash Flows From Financing Activities:</i>		
Proceeds from issuance of membership certificate	10	10
Proceeds from borrowing	11,349	-0-
Principal payments on debt	(34,762)	(84,736)
Net Cash Provided by (Used in) Financing Activities	(23,403)	(84,726)
 <i>Cash Flows From Investing Activities:</i>		
Proceeds from sale of assets	-0-	3,150
Maturities of short-term investments	399,352	342,648
Cash invested in assets whose use is limited	(58,238)	(14,568)
Purchases of short-term investments	(310,000)	(385,790)
Purchases of property and equipment	(93,704)	(99,384)
Net Cash From Investing Activities	(62,590)	(153,944)
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	 (409,510)	 133,511
 <i>Cash and Cash Equivalents - beginning of year</i>	 535,565	 402,054
 <i>Cash and Cash Equivalents - end of year</i>	 <u>\$ 126,055</u>	 <u>\$ 535,565</u>

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS - Continued
For the year ended June 30, 1999 and 1998

	1999	1998
<i>Reconciliation of Excess Revenues (Expenses) to Net Cash From Operating Activities:</i>		
Increase (decrease) in net assets	(\$ 473,693)	(\$ 15,181)
Adjustments:		
Depreciation expense	169,497	181,002
Gain on sale of assets	-0-	(3,150)
Decrease (increase) in operating assets:		
Net patient receivables	(59,488)	77,180
Health insurance settlement	(189,444)	230,241
Inventories	(19,424)	(4,748)
Prepaid expenses	(14,386)	9,478
Other assets	5,497	5,486
Increase (decrease) in operating liabilities:		
Accounts payable	263,812	(116,027)
Accrued payroll liabilities	(446)	9,714
Accrued compensated absences	(5,320)	(1,811)
Interest payable	(122)	(3)
Total Adjustments	<u>150,176</u>	<u>387,362</u>
 <i>Net Cash Provided by (Used in) Operating Activities</i>	 <u>(\$ 323,517)</u>	 <u>\$ 372,181</u>

Supplemental Disclosures of Non-cash Transactions:

During 1998, the Hospital purchased equipment of \$102,245 through loans from local banks.

See Notes to Financial Statements.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Union General Hospital, Inc. (Hospital) provides outpatient emergency care, acute inpatient hospital care, behavioral health care, 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 were 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.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Assets limited as to use

Assets limited as to use primarily include cash designated by the board for the payment of employee benefits; required balances of cash to be held on deposit with the Louisiana Hospital Association for workers' compensation, malpractice and general liability coverage; and required balances to be held in reserve by a lender. 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, 1999, 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.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 assets 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 1997.

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 March, 1995.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1998 and 1997

NOTE 2 - NET PATIENT SERVICE REVENUE - Continued

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:

	<u>1999</u>	<u>1998</u>
Inpatient charges	\$ 5,123,402	\$ 5,764,561
Outpatient charges	2,261,883	2,442,412
Total Charges	<u>7,385,285</u>	<u>8,206,973</u>
Medicare, Medicaid and other contractual adjustments	(2,224,969)	(2,806,619)
Disproportionate share funds received	136,888	191,370
Indigent and Hill-Burton free care	(103,661)	(114,382)
Net Patient Revenue	<u>\$ 5,193,543</u>	<u>\$ 5,477,342</u>

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 are capitalized. Routine maintenance and repair items are charged to current operations. A summary of the accounts and the related accumulated depreciation follows:

	<u>1999</u>		<u>1998</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land & land improvements	\$ 11,914	\$ 1,447	\$ 10,414	\$ 1,193
Buildings & building improvements	459,043	115,814	444,152	93,283
Furniture & equipment	1,129,614	780,397	1,058,157	679,092
Facilities leased from District	<u>3,298,134</u>	<u>2,415,868</u>	<u>3,292,278</u>	<u>2,370,461</u>
Totals	<u>\$ 4,898,705</u>	<u>\$ 3,313,526</u>	<u>\$ 4,805,001</u>	<u>\$ 3,144,029</u>

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.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

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, 1999 and 1998, approximately \$ 104,000 and \$ 114,000, respectively, in charges were forgone at an estimated cost to the Hospital of approximately \$ 75,000 and \$ 72,000, 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, 1999 and 1998, the Hospital did not contribute to the plan.

NOTE 6 - ADVERTISING

Advertising for the Hospital consists mainly of radio, billboard, and newspaper advertising. During the years ended June 30, 1999 and 1998, the Hospital incurred advertising expenses of \$27,643 and \$6,283, respectively.

NOTE 7 - ACCOUNTS RECEIVABLE ASSIGNED TO FACTOR

Accounts receivable are comprised of the following:

	<u>1999</u>	<u>1998</u>
Receivables assigned to factor	\$ 11,349	\$ -0-
Less advances from factor	11,349	-0-
Due from factor	<u>-0-</u>	<u>-0-</u>
Unfactored accounts receivable	1,679,913	1,509,201
Allowances for contractual adjustments and Uncollectible accounts	(743,000)	(631,776)
Net Patient Revenue	<u>\$ 936,913</u>	<u>\$ 877,425</u>

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 7 - ACCOUNTS RECEIVABLE ASSIGNED TO FACTOR - Continued

Pursuant to a factoring agreement, one of the Hospital's primary bank's acts as its factor for a portion of its patient receivables, which are assigned on a pre-approved basis. The factoring charge amounts to 7.5% of the receivables assigned. The Hospital's obligation to the bank is collateralized by all present and future receivables and all returned, repossessed, and reclaimed goods. The Hospital has entered into a revolving credit and security agreement with the same bank, which expires on May 25, 2000, in the amount of \$ 300,000.

Pursuant to the terms of the agreement, which can be canceled by either party upon 60 days' written notice, the Hospital is required to maintain a reserve account equal to 10% of the face amount of receivables presented to and approved by the bank. The balance and reserve percentage of this account may be adjusted from time to time at the bank's discretion. Funds out of this reserve account can only be drawn or disbursed at the consent of the bank. Interest is charged to patients from 9% to 18%, depending upon the individual patient receivable balance.

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of notes payable and a line of credit draw resulting from receivables assigned to factor. The following is a summary of long-term debt at June 30, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Due to bank; payable monthly at \$ 1,481 including interest at 8.25%; secured with house and two lots; matures on December 21, 1999	\$ 37,603	\$ 51,640
Due to bank; payable monthly at \$ 1,525 for 11 months with a final balloon payment of \$24,008 including interest at 6.5%; secured with a certificate of deposit; matured on December 11, 1998	-0-	30,869
Due to bank; payable monthly at \$ 1,720 including interest at 5.85%; secured with a certificate of deposit; matures on October 20, 2001	10,145	-0-
Due to bank; line of credit up to \$ 300,000 including interest at 9% to 18%; secured by accounts receivable assigned to factor (see Note 6); matures on May 25, 2000	11,348	-0-
Total long-term debt	<u>\$ 59,096</u>	<u>\$ 82,509</u>

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 8 - LONG-TERM DEBT - Continued

Future note principal payments under these borrowing arrangements are as follows:

<u>Year Ending:</u>	
2000	\$ 36,727
2001	16,545
2002	5,824
	<u>\$ 59,096</u>

NOTE 9 - 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, 1999 and 1998, approximately 47% and 72%, 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 a limitation placed on the number of occurrences covered.

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.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 9 - OFF BALANCE SHEET RISKS AND CREDIT CONCENTRATIONS - Continued

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 has been provided by the Hospital through the fiscal year ended in 1999. 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 10 - 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. During the years ended June 30, 1999 and 1998, the Hospital paid approximately \$ 49,970 and \$ 49,200, respectively, toward these commitments. The following is a summary of the approximate remaining portion of these commitments:

<u>Year Ending June 30,</u>	<u>Maintenance</u>	<u>Lease</u>
2000	\$ 9,800	\$ 10,970
2001	-0-	10,970
2002	-0-	4,300
2003	-0-	-0-
2004	-0-	-0-

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, 1996. The physician contracts are for two years and expire in August and September, 1999. Under these agreements, 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 the agreements at June 30, 1999 is approximately \$ 55,978.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 10 - CONTRACTUAL COMMITMENTS - Continued

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 operating expenses of the unit will be paid by Sunrise with the Hospital paying Sunrise to manage 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, 1999 and 1998, the Hospital paid Sunrise Healthcare \$ 1,180,000 and \$1,115,000, respectively under this arrangement.

NOTE 11 - PROPERTY TAX REVENUES

In November, 1998, the voters of the District approved the authorization of a ten-year, 5 mill, property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping, and operating the hospital facilities. Revenues from the tax levy are expected to be received beginning in January, 2000. The District board of directors determines how the tax proceeds will be spent.

NOTE 12 - 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. The hardware portion of these systems has been remediated, and tested and validated. The software portion of these systems has been remediated by the software vendor and is currently being tested and validated. The Hospital plans to have this new software installed and have the validation and testing stage completed in November 1999.
- 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 \$ 10,300 in replacing various software systems. In addition, approximately \$ 2,500 is planned to be spent in the remainder of 1999 to complete the remediation efforts for the financial reporting and payroll system software.

UNION GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 1999 and 1998

NOTE 12 - 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.

1511 Judson Road, Suite A
Longview, Texas 75601
903/758-9600
Fax 903/758-1800



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

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

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, 1999, and have issued our report thereon dated September 8, 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 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 level the 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 internal control over financial reporting that we have reported to management of Union General Hospital, Inc. in a separate letter dated September 8, 1999.

Summary of Prior Year Findings

We have reviewed the Hospital's responses to the items noted in the previous year's audit report. Based on our review, we believe the Hospital has responded appropriately to these findings.

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 8, 1999

1511 Judson Road, Suite A
Longview, Texas 75601
903/758-9600
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
Union General Hospital, Inc.

In planning and performing our audit of the financial statements of Union General Hospital, Inc. 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 an 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 Union General Hospital Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters noted below are only those that came to our attention and, had the procedures for internal control structure related matters been more extensive, other matters might have been noted. No opinion is expressed regarding the internal control structure taken as a whole.

Board Approval of Fixed Asset Dispositions

Comments:

We did not notice any board approval within the board minutes for the disposition of a x-ray machine from the physician office due to its disrepair and obsolescence.

Recommendations:

Since the Hospital acts in a fiduciary capacity regarding the Hospital building and equipment, the hospital board minutes should mention that the District's board has approved this disposition.

Hospital's Response:

The District's board of directors did approve this disposition; however, such approval was inadvertently omitted from our board of director minutes.

Board Approval of Specific Transactions

Comments:

In our review of board minutes, we did not notice any approval for the agreement for accounts receivable assigned to factor or the corresponding \$ 300,000 line of credit (with an outstanding balance of \$ 11,349 on June 30, 1999) which began on May 25, 1999.

Recommendations:

This transaction qualifies as a borrowing arrangement and the hospital's board should approve all borrowing on behalf of the hospital.

Hospital's Response:

The hospital was not aware of the line of credit arrangement when this arrangement was made with the bank. No mention of the \$300,000 line of credit was made when the arrangement negotiated with the bank. This arrangement will be brought to the attention of our board of directors at the next meeting for their approval.

We express our appreciation for the cooperation we have received from all employees of Union General Hospital, Inc. This report is intended solely for the information and use of the Legislative Auditor, the board of directors and management.

Neuman, Richardson & Co., L.L.P.
Neuman, Richardson & Co., L.L.P.
September 8, 1999