

HOMER MEMORIAL HOSPITAL AND AFFILIATE

FINANCIAL STATEMENTS WITH
MANAGEMENT'S DISCUSSION AND
ANALYSIS AND INDEPENDENT
AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2009, 2008, AND 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 11/4/09

HOMER MEMORIAL HOSPITAL AND AFFILIATE
TOWN OF HOMER, STATE OF LOUISIANA
HOSPITAL ENTERPRISE FUND
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Management's Discussion and Analysis.....	i-vii
Independent Auditors' Report on the Combined Financial Statements and Supplementary Information	1-2
FINANCIAL STATEMENTS	
Combined Balance Sheets	3
Combined Statements of Revenues, Expenses, and Changes in Net Assets	4
Combined Statements of Cash Flows	5-6
Notes to Combined Financial Statements	7-24
SUPPLEMENTARY INFORMATION	
Combined Schedules of Net Patient Service Revenue.....	26-28
Combined Schedules of Other Operating Revenue	29
Combined Schedules of Operating Expenses.....	30-33
Schedule of Per Diem and Other Compensation Paid to Hospital Board Members	34
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	35-42

Homer Memorial Hospital

Management's Discussion and Analysis

This section of Homer Memorial Hospital's (Hospital's) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2009, 2008, and 2007. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by \$438,000 or approximately 3% during fiscal year 2009 compared to an increase of \$436,000 (4%) in fiscal year 2008 and an increase of \$763,000 (7%) in fiscal year 2007. The decrease is primarily a result of depreciation on recently completed capital projects like emergency room construction and patient room renovations that were paid for with cash.
- Net patient revenues increased by \$1,166,000 or 8% in fiscal year 2009. This is a significant improvement when compared to the decrease of \$679,000 (4%) in fiscal year 2008 but does not match the significant increase of \$1,818,000 (13%) seen in fiscal year 2007.
- Total operating expenses increased \$362,000 (2%) in fiscal year 2009. This was a much smaller increase than the \$931,000 (6%) increase in fiscal year 2008 and the \$1,005,000 (7%) in fiscal year 2007. Overtime and fuel costs contributed to the increase.
- The Hospital received \$741,000, \$1,664,000 and \$1,391,000 in disproportionate share payments during fiscal years 2009, 2008, and 2007, respectively. The reduction in fiscal year 2009 disproportionate share payments is the result of an increase in Medicaid reimbursement to 110% of Medicaid allowable cost. This accounting change shifted a significant percentage of Medicaid payments from the retroactive disproportionate share system to the concurrent claims payment system without actually increasing or decreasing total reimbursement from Medicaid.

Required Financial Statements

The Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. This statement measures results in the Hospital's operations during the years provided and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

TABLE 1
Condensed Balance Sheets (In thousands)

	June 30,			
	2009	2008	2007	2006
Total current assets	\$ 4,255	\$ 5,422	\$ 7,214	\$ 6,690
Limited use assets (non current)	2,328	1,131	1,950	1,805
Property, plant and equipment	5,528	5,985	3,027	2,933
Unamortized bond issue cost	78	89	-0-	-0-
Total assets	\$ 12,189	\$ 12,627	\$ 12,191	\$ 11,428
Total current liabilities	\$ 2,238	\$ 2,546	\$ 1,918	\$ 1,713
Long-term debt, net of current	1,526	1,680	2,081	2,284
Total liabilities	3,764	4,226	3,999	3,997
Net assets:				
Invested in capital assets, net of related debt	5,394	5,851	2,854	2,664
Restricted net assets	707	424	1,212	970
Unrestricted net assets	2,324	2,126	4,126	3,797
Total liabilities and net assets	\$ 12,189	\$ 12,627	\$ 12,191	\$ 11,428

As can be seen in Table 1, total assets decreased by \$438,000 to \$12,189,000 in fiscal year 2009, down from \$12,627,000 in fiscal year 2008.

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

The Hospital paid cash for all of the acquisitions listed in the table below except for the chemical analyzer which was financed by a capital lease.

TABLE 2
Capital Investments (Rounded to nearest thousand)

	2009
<u>Equipment</u>	<u>Cost</u>
Ventilators	\$ 12,000
Pediatric cribs	5,000
Computers-on-wheels (COWS)	19,000
Fetal monitor	9,000
Dell server	14,000
Battery charger for portable x-ray	5,000
Computer system	55,000
TVs for patient rooms	7,000
2008 Chevrolet truck	12,000
Total equipment	<u>138,000</u>
<u>Buildings and Improvements</u>	
ER renovations	15,000
Kitchen remodel	15,000
Patient room renovations	137,000
Storage/Foundation renovation	18,000
Concrete walk and fence	6,000
Total buildings and improvements	<u>191,000</u>
<u>Construction in Progress</u>	
Chemistry analyzer	141,000
Miscellaneous renovation projects	6,000
	<u>147,000</u>
Total major acquisitions	<u>\$ 476,000</u>

Sources of Revenue

Operating Revenue

During fiscal years 2009, 2008, and 2007 the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs or other third party payers and patients who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and other third party payers is based upon established contracts, and the difference between the full charge and payment is recognized as a contractual adjustment. Other revenue includes interest income, cafeteria sales, and other miscellaneous services.

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

Table 3 represents the relative percentages of net charges billed for patient services by payor for the fiscal years ended June 30, 2009, 2008, and 2007. Payor mix percentages are computed based on gross charges less contractual adjustments compared to total net patient charges. In July 2008, the per diem rate paid on Medicaid inpatient claims increased from \$731 to \$1,351 per patient day and Medicaid outpatient reimbursement increased from 86% to 110% of cost to compensate for the high volume of uninsured patients serviced at the Hospital. Because of this, the payor mix was redistributed with a larger percentage attributable to Medicaid.

TABLE 3
Payor Mix by Percentage

	Year ended June 30		
	2009	2008	2007
Medicare	33.51%	45.03%	40.56%
Medicaid	18.92%	8.66%	8.02%
Commercial	11.77%	14.95%	23.46%
Self-pay and other	35.80%	31.36%	27.96%
Total patient revenue	100.00%	100.00%	100.00%

Non-Operating Income

The Hospital holds designated and restricted funds in its Balance Sheet that are invested primarily in money market funds held at First Guaranty Bank in Public Fund Service Accounts (PFSA). Total investment income earned was \$24,000, \$138,000, and \$258,000 in 2009, 2008, and 2007, respectively. A decrease in the percentage of interest paid by the bank has significantly impacted the amount of investment income recorded. An all-time low of .16% was recorded in December 2008; however in January 2009 all investment accounts were switched to a Money Market account with a guaranteed rate of at least 1%. Alternatives were reviewed in order to obtain a better rate but accounts with higher interest rates required that fund withdrawals were restricted and were not accessible without penalties.

Capital Grants and Contributions

During fiscal year 2008 the Hospital received \$999,000 grant revenue for purchasing computer hardware, software and related expenses to create a health information system. The Claiborne Healthcare Foundation, an affiliate, received contributions of \$240,000 and \$81,000 during 2009 and 2008, respectively, that are restricted towards future capital expenditures.

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

Income Statement

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2009, June 30, 2008, June 30, 2007, and June 30, 2006.

TABLE 4
Condensed Statements of Revenues, Expenses and Changes in Net Assets (In thousands)

	Years Ended June 30,			
	2009	2008	2007	2006
Net patient service revenue	\$ 16,466	\$ 15,300	\$ 15,980	\$ 14,161
Other revenue	194	203	188	195
Total operating revenues	16,660	15,503	16,168	14,356
Salaries	7,236	7,125	6,595	6,252
Benefits and payroll taxes	1,501	1,483	1,503	1,455
Supplies and drugs	3,933	3,831	3,745	3,229
Professional fees	1,900	1,724	1,384	1,357
Other expenses	1,114	1,360	1,505	1,433
Insurance	217	203	196	212
Depreciation and amortization	925	737	606	590
Total operating expenses	16,826	16,463	15,534	14,528
Operating income (loss)	(166)	(960)	634	(172)
Investment income	24	138	258	228
Interest expense	(89)	(119)	(154)	(154)
Revenues in excess of expenses	(231)	(941)	738	(98)
Capital grants and contributions	255	1,151	23	23
Increase (decrease) in net assets	24	210	761	(75)
Net assets - beginning of year	8,400	8,190	7,429	7,504
Net assets - end of year	\$ 8,424	\$ 8,400	\$ 8,190	\$ 7,429

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

Accounts Receivable

Total Accounts Receivable has decreased significantly within the past year. Part of the increase in the previous year in total Accounts Receivable was due to the implementation of a new computer system on May 1, 2008. In July 2008 Homer Memorial Hospital contracted with HMS Accounts Receivable Management (ARM) Services to help alleviate the backlog of claims due to employees learning a new system. This contract expired on June 30, 2009 and Homer Memorial Hospital did not renew. The new business office manager and Medicare billing clerk have succeeded in getting the business office operating efficiently and as a result Accounts Receivable should continue to decrease. Homer Memorial Hospital continues to carry accounts on which payment arrangements have been made, therefore, the total balance stays in active Accounts Receivable longer.

TABLE 5
Accounts Receivable Aging (In thousands)

	Year ended June 30		
	2009	2008	2007
Current accounts	\$ 4,264	\$ 3,793	\$ 3,509
30-day accounts	971	2,007	1,793
60-day accounts	867	1,957	1,710
90-day and over accounts	3,471	6,056	4,546
Total	<u>\$ 9,573</u>	<u>\$ 13,813</u>	<u>\$ 11,558</u>

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2009 and 2008:

- Patient days increased to 10,651 in fiscal year 2009. This is a 2% increase in overall activity when compared to the 10,460 patient days in fiscal year 2008 but it is 6% below the 11,339 patient days in fiscal year 2007. Average daily census showed a similar trend of 29.18 in fiscal year 2009, up 2% when compared to 28.50 in fiscal year 2008 but 6% below the 31.07 in fiscal year 2007.
- Salaries increased by \$111,000 or approximately 1.56% over the previous year. Employee benefits expense increased \$18,000 or approximately 1.21%. The balance of the increase was caused by an increase in overtime. Strategic initiatives and monitoring have been put in place to reduce overtime expenses in the coming year.
- Investment income was down to \$24,000 for fiscal year 2009, primarily due to the lower interest being paid on funds held at First Guaranty Bank. \$138,000 was received in 2008 and \$258,000 in 2007. In January, 2009 the Hospital moved funds into a Money Market account which has a guaranteed floor of 1% but the potential to increase with a rise in interest rates. Rates are being re-evaluated quarterly to make sure the highest return is being earned.

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

- Professional fees increased by \$176,000 or 10%. This was primarily due to an increase in emergency professional fees that went into effect September 1, 2008. In addition, the loss of a nurse practitioner in May, 2009 resulted in heavy usage of physicians to cover her shifts. Contract emergency physician services were established as a long-term solution, so expenses will stabilize at the increased cost over the coming year.
- Supply and drug cost increased slightly by \$102,000 or 3% over the prior year. A significant part of this increase was caused by the implementation of a computerized system for purchasing and supply management. The implementation resulted in one-time corrections of inventory quantities and costs. The balance of the increase was caused by physician usage of high-cost antibiotics as a first-choice decision. The Pharmacy Director implemented antibiotic performance measures designed specifically to facilitate cost-effective decision processes with regard to antibiotic usage.
- The Hospital's note payable for the nuclear medicine camera was paid-in-full during fiscal year 2009 with savings generated by the self-funded malpractice/general liability and worker's compensation account. Money equal to premiums is set aside each month and any amount over the Board designated amount is transferred to the General Fund.
- Beginning in fiscal year 2010, the Recovery Audit Contractors (RAC) review is set to begin. A RAC is a private company hired by Medicare to identify and correct past Medicare improper payments, whether overpayments or underpayments. Their reviews will be conducted only on claims paid after October 1, 2007. The Hospital has sent key employees that will be on the RAC team to the education/outreach program conducted by Connolly Healthcare who will be performing the audit.

Contacting the Hospital's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Hospital Administration.



LESTER, MILLER & WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 Bayou Rapides Rd. • Alexandria, LA 71303

Members:

American Institute of CPA's

Society of Louisiana CPA's

Bobby G. Lester, CPA

John S. Wells, CPA

Robert G. Miller, CPA

Paul A. Delaney, CPA

Mary L. Carroll, CPA

Brenda J. Lloyd, CPA

Mailing Address: Post Office Box 8758 • Alexandria, Louisiana 71306-1758 • Telephone (318) 487-1450 • Facsimile (318) 445-1184

Independent Auditors' Report

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

We have audited the accompanying combined financial statements of Homer Memorial Hospital and its affiliate (the Hospital), a component unit of the Town of Homer, Louisiana, as of and for the years ended June 30, 2009, 2008, and 2007, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 consolidated 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2009, 2008, and 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2009, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the Hospital's combined financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Board of Commissioners
Homer Memorial Hospital
Page Two

Management's discussion and analysis on pages "i" through "vii" is not a required part of the combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

October 13, 2009



HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30,

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current:			
Cash and cash equivalents (Notes 2 & 3)	\$ 118,526	\$ 27,568	\$ 75,791
Short-term investments (Note 3)	54,370	24,047	1,557,844
Receivables, net (Note 4)	2,874,488	4,132,880	3,608,844
Assets limited as to use - current (Note 5)	383,432	342,739	1,246,479
Inventories	567,120	487,013	481,915
Prepaid expenses	247,613	227,760	213,385
Other current assets (Note 6)	9,650	180,134	29,831
Total current assets	<u>4,255,199</u>	<u>5,422,141</u>	<u>7,214,089</u>
Other:			
Assets limited as to use - non current (Note 5)	2,327,669	1,130,539	1,949,889
Property, plant, and equipment, net (Note 7)	5,527,783	5,984,624	3,026,550
Unamortized bond issue cost	78,226	89,401	-0-
Total assets	<u>\$ 12,188,877</u>	<u>\$ 12,626,705</u>	<u>\$ 12,190,528</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current:			
Accounts payable	\$ 505,232	\$ 674,710	\$ 265,229
Accrued expenses	658,691	764,023	504,357
Estimated third-party payor settlements	883,000	883,000	951,000
Current maturities of long-term debt (Note 8)	191,600	224,448	197,458
Total current liabilities	<u>2,238,523</u>	<u>2,546,181</u>	<u>1,918,044</u>
Long-term debt, net of current maturities (Note 8)	1,525,920	1,680,133	2,081,206
Total liabilities	<u>3,764,443</u>	<u>4,226,314</u>	<u>3,999,250</u>
Net Assets:			
Invested in capital assets, net of related debt	5,393,692	5,850,830	2,854,033
Restricted net assets	706,788	423,549	1,211,987
Unrestricted net assets	2,323,954	2,126,012	4,125,258
Total net assets	<u>8,424,434</u>	<u>8,400,391</u>	<u>8,191,278</u>
Total liabilities and net assets	<u>\$ 12,188,877</u>	<u>\$ 12,626,705</u>	<u>\$ 12,190,528</u>

See accompanying notes to financial statements.

**HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Net patient service revenue (Note 10)	\$ 16,466,368	\$ 15,300,083	\$ 15,979,565
Other revenue	<u>193,468</u>	<u>203,189</u>	<u>187,681</u>
 Total revenues	 <u>16,659,836</u>	 <u>15,503,272</u>	 <u>16,167,246</u>
 Expenses:			
Salaries	7,235,614	7,125,255	6,595,485
Benefits and payroll taxes	1,501,386	1,483,055	1,502,647
Supplies and drugs	3,933,507	3,831,078	3,744,803
Professional fees	1,899,899	1,724,332	1,383,712
Other expenses	1,113,660	1,360,208	1,504,747
Insurance	216,649	203,169	195,610
Depreciation and amortization	<u>924,702</u>	<u>737,330</u>	<u>606,414</u>
 Total expenses	 <u>16,825,417</u>	 <u>16,464,427</u>	 <u>15,533,418</u>
 Operating income (loss)	 <u>(165,581)</u>	 <u>(961,155)</u>	 <u>633,828</u>
 Nonoperating revenues (expenses)			
Investment income	23,512	137,905	257,650
Interest expense	<u>(89,123)</u>	<u>(118,601)</u>	<u>(154,435)</u>
 Excess of revenues (expenses) before capital grants and contributions	 (231,192)	 (941,851)	 737,043
 Capital grants and contributions	 <u>255,235</u>	 <u>1,150,964</u>	 <u>23,479</u>
 Increase (decrease) in net assets	 24,043	 209,113	 760,522
 Net assets at beginning of year	 <u>8,400,391</u>	 <u>8,191,278</u>	 <u>7,430,756</u>
 Net assets at end of year	 \$ <u>8,424,434</u>	 \$ <u>8,400,391</u>	 \$ <u>8,191,278</u>

See accompanying notes to financial statements.

**HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	\$ 17,724,760	\$ 14,708,047	\$ 15,403,266
Other receipts and payments, net	348,943	123,419	213,670
Payments to suppliers and contractors	(7,433,153)	(6,728,779)	(6,893,567)
Payments to employees	<u>(8,842,332)</u>	<u>(8,348,644)</u>	<u>(8,063,040)</u>
Net cash provided (used) by operating activities	<u>1,798,218</u>	<u>(245,957)</u>	<u>660,329</u>
Cash flows from investing activities:			
Interest on investments	23,512	137,905	257,650
Change in assets whose use is limited	(1,237,823)	1,723,090	(388,864)
Change in investments	<u>(30,323)</u>	<u>1,533,797</u>	<u>468,669</u>
Net cash provided (used) by investing activities	<u>(1,244,634)</u>	<u>3,394,792</u>	<u>337,455</u>
Cash flows from capital and related financing activities:			
Capital grants and contributions	255,235	1,150,964	23,479
Interest paid on long-term debt	(89,123)	(118,601)	(154,435)
Proceeds from issuance of long-term debt	-0-	1,876,347	-0-
Payment for bond issue costs	11,175	(89,401)	-0-
Principal payments on long-term debt	(321,152)	(2,250,430)	(245,226)
Proceeds from disposal of assets	15,009	1,680	-0-
Purchase of property and equipment	<u>(333,770)</u>	<u>(3,767,617)</u>	<u>(701,258)</u>
Net cash provided (used) by capital and related financing activities:	<u>(462,626)</u>	<u>(3,197,058)</u>	<u>(1,077,440)</u>
Net increase (decrease) in cash and cash equivalents	90,958	(48,223)	(79,656)
Beginning cash and cash equivalents	<u>27,568</u>	<u>75,791</u>	<u>155,447</u>
Ending cash and cash equivalents	\$ <u>118,526</u>	\$ <u>27,568</u>	\$ <u>75,791</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED STATEMENTS OF CASH FLOWS (Continued)
 YEARS ENDED JUNE 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest (net of interest capitalized)	\$ <u>88,077</u>	\$ <u>118,601</u>	\$ <u>152,093</u>
Noncash investing, capital and financing activities:			
The Hospital entered into capital lease obligations of \$134,091 for new equipment in 2009.			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (165,581)	\$ (961,155)	\$ 633,828
Adjustments to reconcile operating income to net cash flows provided (used) in operating activities:			
Depreciation and amortization	924,702	737,330	606,414
(Gain) loss on disposal of asset	(15,009)	70,533	1,718
(Increase) decrease in:			
Patient accounts receivable, net	1,258,392	(524,036)	(843,299)
Other assets	70,524	(169,776)	14,436
(Increase) decrease in:			
Accounts payable and accrued expenses	(274,810)	669,147	(19,768)
Estimated third-party payor settlements	<u>-0-</u>	<u>(68,000)</u>	<u>267,000</u>
Net cash provided (used) by operating activities	\$ <u>1,798,218</u>	\$ <u>(245,957)</u>	\$ <u>660,329</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

Homer Memorial Hospital (the "Hospital") is an enterprise fund of the Town of Homer, Louisiana. The Hospital 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.*

As the governing authority of the Town, for reporting purposes, the Town of Homer is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Town of Homer based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Claiborne Healthcare Foundation, Inc. (the "Foundation") was incorporated January 1, 2007, as a Louisiana non-profit organization to support specific capital projects that compliment the mission of Homer Memorial Hospital. The Hospital Board has pledged to fund the operational expenses of the Foundation so that 100% of the contributions to the Foundation can be allocated according to the donors' restrictions. The Foundation is included in the Hospital's reporting entity because of the significance of its operational and financial relationship with the Hospital.

Nature of Business

The Hospital provides inpatient and outpatient and emergency hospital services, as well as skilled nursing (through "swing beds"), home health, and inpatient psychiatric services to patients from Claiborne and surrounding parishes and counties.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of the Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

Principles of Combination

The accompanying financial statements include the accounts and transactions of the Hospital combined with its affiliate, Claiborne Healthcare Foundation, Inc. All material intercompany accounts and transactions have been eliminated.

Income Taxes

The Hospital is a political subdivision and exempt from taxation. The Foundation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, designated assets set aside by the Foundation Board, restricted by contributors' designations for capital projects and designated assets set aside by the Hospital Board, over which the Hospital Board retains control and may at its discretion subsequently use for other purposes.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses the straight-line method of calculating depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Building and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	5 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The Hospital capitalizes depreciable property and equipment valued at \$5,000 or more, with a useful life greater than two years. The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Unamortized Bond Costs

Unamortized bond costs represent the cost of debt issuance and are being amortized over the term the related debt is outstanding.

Net Assets

Net assets of the Hospital are classified in three components, net assets invested in capital assets (property and equipment) net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include 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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Credit Risk

The Hospital is located in Homer, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 4. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classifications.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2009, 2008, and 2007.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates.

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Carrying amount			
Deposits	\$ 118,526	\$ 27,568	\$ 75,791
Investments	<u>2,765,471</u>	<u>1,497,325</u>	<u>4,754,212</u>
	<u>\$ 2,883,997</u>	<u>\$ 1,524,893</u>	<u>\$ 4,830,003</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 118,526	\$ 27,568	\$ 75,791
Short-term investments	54,370	24,047	1,557,844
Assets limited as to use - current	383,432	342,739	1,246,479
Assets limited as to use - noncurrent	<u>2,327,669</u>	<u>1,130,539</u>	<u>1,949,889</u>
Totals	<u>\$ 2,883,997</u>	<u>\$ 1,524,893</u>	<u>\$ 4,830,003</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 4 - RECEIVABLES, NET

A summary of net receivables at June 30 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Accounts receivable			
Patient accounts receivable	\$ 5,860,869	\$ 6,898,486	\$ 5,572,560
Estimated uncollectibles	<u>(2,840,676)</u>	<u>(2,907,000)</u>	<u>(2,012,743)</u>
Net patient accounts receivable	3,020,193	3,991,486	3,559,817
Third-party cost based settlements	<u>(145,705)</u>	<u>141,394</u>	<u>49,027</u>
Receivables, net	<u>\$ 2,874,488</u>	<u>\$ 4,132,880</u>	<u>\$ 3,608,844</u>

The following is a summary of the mix of gross receivables from patients and third-party payors at June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	42%	55%	54%
Medicaid	9%	11%	12%
Other third-party payors	14%	15%	12%
Others	<u>35%</u>	<u>19%</u>	<u>22%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - ASSETS LIMITED AS TO USE

The components of assets limited as to use at June 30, is set forth in the following table. Investments are stated at fair value and are comprised primarily of certificates of deposit and money market brokerage accounts.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Restricted by third parties			
Bond sinking fund	\$ -0-	\$ -0-	\$ 31,732
Bond reserve fund	-0-	-0-	371,216
Bond contingency fund	-0-	-0-	286,924
Capital improvement	323,514	80,967	-0-
Self-funded insurance fund	<u>383,274</u>	<u>342,582</u>	<u>522,115</u>
Total restricted by third parties	<u>706,788</u>	<u>423,549</u>	<u>1,211,987</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 5 - ASSETS LIMITED AS TO USE (Continued)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Restricted by Hospital Board			
Education fund	\$ 158	\$ 157	\$ 96
Funded depreciation	-0-	-0-	34,396
Long-term investment fund	1,051,443	101,395	1,055,262
Capital improvement	-0-	-0-	54,224
Investment fund #2	<u>952,712</u>	<u>948,177</u>	<u>840,403</u>
 Total restricted by Hospital Board	 <u>2,004,313</u>	 <u>1,049,729</u>	 <u>1,984,381</u>
 Total assets limited as to use	 2,711,101	 1,473,278	 3,196,368
 Less: Current portion	 <u>383,432</u>	 <u>342,739</u>	 <u>1,246,479</u>
 Non current assets limited as to use	 \$ <u>2,327,669</u>	 \$ <u>1,130,539</u>	 \$ <u>1,949,889</u>

NOTE 6 - OTHER CURRENT ASSETS

The Hospital provided 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 advanced 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 Board of Directors ended the educational program in 2000. The following is a summary of the net education contracts receivable at June 30.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 11,259	\$ 29,831	\$ 54,102
Advances on education loans	3,000	1,958	-0-
Assessment of interest on balances due	452	661	1,005
Changes in allowance for doubtful collections	(2,200)	2,201	6,122
Cancellation and repayments of contracts	(460)	(22,780)	(30,627)
Principal and interest paid	<u>(2,401)</u>	<u>(612)</u>	<u>(771)</u>
 Balance, end of year	 \$ <u>9,650</u>	 \$ <u>11,259</u>	 \$ <u>29,831</u>

**HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007**

NOTE 6 - OTHER CURRENT ASSETS (Continued)

Included in Other Current Assets at June 30, 2008, is \$168,875 grant receivable related to grant revenue discussed in Note 14.

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation at June 30:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2009</u>
Land and Improvements	\$ 350,815	\$ 5,500	\$ -0-	\$ 356,315
Buildings and improvements	9,527,999	191,925	-0-	9,719,924
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	6,193,821	269,923	6,840	6,456,904
Construction in progress	<u>152,110</u>	<u>483,364</u>	<u>482,706</u>	<u>152,768</u>
 Total	 16,245,365	 950,712	 489,546	 16,706,531
Accumulated depreciation	<u>(10,260,741)</u>	<u>(924,702)</u>	<u>(6,695)</u>	<u>(11,178,748)</u>
 Net	 <u>\$ 5,984,624</u>	 <u>\$ 26,010</u>	 <u>\$ 482,851</u>	 <u>\$ 5,527,783</u>

The following is a summary of property, plant, and equipment and related accumulated depreciation at June 30:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
Land and improvements	\$ 326,355	\$ 24,460	\$ -0-	\$ 350,815
Buildings and improvements	7,115,835	2,412,164	-0-	9,527,999
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	4,835,123	1,392,141	33,443	6,193,821
Construction in progress	<u>285,471</u>	<u>3,278,197</u>	<u>3,411,558</u>	<u>152,110</u>
 Total	 12,583,404	 7,106,962	 3,445,001	 16,245,365
Accumulated depreciation	<u>(9,556,854)</u>	<u>(737,330)</u>	<u>(33,443)</u>	<u>(10,260,741)</u>
 Net	 <u>\$ 3,026,550</u>	 <u>\$ 6,369,632</u>	 <u>\$ 3,411,558</u>	 <u>\$ 5,984,624</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

The following is a summary of property, plant, and equipment and related accumulated depreciation at June 30:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>
Land and improvements	\$ 319,355	\$ 7,000	\$ -0-	\$ 326,355
Buildings and improvements	6,844,682	278,231	7,078	7,115,835
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	5,051,031	194,789	410,697	4,835,123
Construction in progress	<u>64,233</u>	<u>546,600</u>	<u>325,362</u>	<u>285,471</u>
 Total	 12,299,921	 1,026,620	 743,137	 12,583,404
Accumulated depreciation	<u>(9,366,497)</u>	<u>(606,414)</u>	<u>(416,057)</u>	<u>(9,556,854)</u>
 Net	 \$ <u>2,933,424</u>	 \$ <u>420,206</u>	 \$ <u>327,080</u>	 \$ <u>3,026,550</u>

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt and capital lease obligations at June 30 follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
2007 Series bonds payable	\$ 1,770,787	\$ -0-	\$ 187,358	\$ 1,583,429	\$ 191,600
Capital lease payable	-0-	134,091	-0-	134,091	-0-
Notes payable	<u>133,794</u>	<u>-0-</u>	<u>133,794</u>	<u>-0-</u>	<u>-0-</u>
 Total	 \$ <u>1,904,581</u>	 \$ <u>134,091</u>	 \$ <u>321,152</u>	 \$ <u>1,717,520</u>	 \$ <u>191,600</u>

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
1988 Series bonds payable	\$ 2,106,147	\$ -0-	\$ 2,106,147	\$ -0-	\$ -0-
2007 Series bonds payable	-0-	1,876,347	105,560	1,770,787	182,275
Notes payable	<u>172,517</u>	<u>-0-</u>	<u>38,723</u>	<u>133,794</u>	<u>42,173</u>
 Total	 \$ <u>2,278,664</u>	 \$ <u>1,876,347</u>	 \$ <u>2,250,430</u>	 \$ <u>1,904,581</u>	 \$ <u>224,448</u>

**HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007**

NOTE 8 - LONG-TERM DEBT (Continued)

	June 30, 2006	Additions	Payments	June 30, 2007	Due Within One Year
1988 Series bonds payable	\$ 2,254,830	\$ -0-	\$ 148,683	\$ 2,106,147	\$ 158,735
Notes payable	198,082	-0-	25,565	172,517	38,723
Capital lease obligations	70,978	-0-	70,978	-0-	-0-
Total	\$ 2,523,890	\$ -0-	\$ 245,226	\$ 2,278,664	\$ 197,458

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2009, 2008 and 2007, follow:

- 6.125% 1988 Hospital revenue bonds, principal maturing in varying annual amounts due June 15, 2017 but redeemed during November, 2007.
- 5.0% 2007 Hospital revenue bonds, principal and interest payable in monthly payments of \$22,127, collateralized by a pledge of the Hospital's land, buildings, and equipment.
- 8.57% note payable, collateralized by equipment with a cost of \$213,619 and book value of \$124,611 at June 30, 2009.
- 5% capital lease obligation, collateralized by equipment with a cost of \$134,091 and book value of \$134,091 at June 30, 2009. Principal and interest of 48 monthly payments of \$3,246 begin July, 2010.

Under the terms of the 1988 Revenue Bonds Payable, the Hospital was required to maintain certain deposits with a trustee. Such deposits were included with assets limited as to use in the balance sheet. The 1988 Revenue Bonds Payable also placed limits on the incurrence of additional borrowings and required that the Hospital satisfy certain measures of financial performance as long as the bonds were outstanding. Similarly, the 2007 Revenue Bonds Payable places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 191,600	\$ 73,924	\$ -0-	\$ 7,448
2011	201,403	64,121	25,786	5,718
2012	211,707	53,817	34,316	4,636
2013	222,538	42,986	36,072	2,880
2014	233,924	31,600	37,917	1,035
2015-2016	522,257	26,696	-0-	-0-
Total	\$ 1,583,429	\$ 293,144	\$ 134,091	\$ 21,717

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 9 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining lease terms in excess of one year.

<u>Year Ending June 30</u>	<u>Amount</u>
2010	\$ 77,064
2011	64,220
2012	-0-
2013	-0-
2014	-0-
Total minimum lease payments	<u>\$ 141,284</u>

NOTE 10 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors 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. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until December 31, 2009, if not extended by Congress. The hold harmless payments were \$207,000, \$235,098 and \$186,107 for the years ended June 30, 2009, 2008, and 2007, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon prospective methodology adjusted for diagnosis and length of stay.

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

Home health services are paid by Medicare under a per episode prospective payment system (PPS) and by Medicaid under a PPS per visit method. Commercial and uninsured visits are not significant.

The Hospital's previous reimbursements are also subject to review by federal authorities. These authorities have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics.

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors. Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Gross patient service charges	\$ 39,540,542	\$ 40,112,242	\$ 41,501,649
Medicaid uncompensated care (UCC)	741,092	1,663,954	1,391,072
Medicare and Medicaid contractual adjustments	(16,238,428)	(19,192,144)	(20,570,398)
Other third-party payor contractual adjustments	(4,907,851)	(4,098,301)	(3,508,641)
Provision for bad debts	(2,668,987)	(3,094,499)	(2,719,284)
Charity care	<u>-0-</u>	<u>(91,169)</u>	<u>(114,833)</u>
Net patient service revenue	\$ <u>16,466,368</u>	\$ <u>15,300,083</u>	\$ <u>15,979,565</u>

The Hospital received interim amounts of \$741,092, \$1,663,954, and \$1,391,072, for Medicaid and self-pay uncompensated care services (UCC) for the years ended June 30, 2009, 2008, and 2007, respectively, which represents 5%, 11%, and 9% of net patient service revenues, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The Hospital has made provisions for recoupment of \$200,000 and \$683,000 for fiscal years 2007 and 2003, respectively. With the exception of 2007 and 2003, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 11 - COMPENSATED ABSENCES

As of June 30, 2009, 2008, and 2007, the Hospital has accrued a compensated absence liability of \$228,027, \$242,267, and \$222,798, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 12 - PENSION PLAN

Until December 31, 2006 all full-time Hospital employees participated 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 years ended June 30, 2009, 2008, and 2007, was approximately \$100,000, \$93,000, and \$2,438,000, respectively; the Hospital's total payroll was approximately \$7,236,000, \$7,125,000, and \$6,595,000 for the years ended June 30, 2009, 2008, and 2007, respectively.

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

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

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B, with thirty years of service at age fifty-five; twenty years of service at age sixty; fifteen years of service at age sixty-two; or ten years of service at age sixty-five, could 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 terminated.

During participation in the DROP plan, employer contributions were payable but employee contributions ceased. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance were paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases were payable to participants until employment which made them eligible to become members in the System had been terminated for at 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 could 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 would begin to be paid to the retiree. If a participant died during the participation in the plan, a lump sum equal to his account balance in the plan fund was paid to his named beneficiary or, if none, to his estate. If employment was 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 were based on final

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 12 - PENSION PLAN (Continued)

average compensation used to calculate the member's original benefit unless the additional period of service was at least thirty-six months.

Generally, the monthly amount of retirement allowance for any member of Plan A or Plan B would 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 were limited to specified amounts. Both plans provided for death and disability benefits. Benefits and employer/employee obligations to contribute were established by state statute.

Each participating employer of Plan A contributed an amount equal to 16% of each and every member's earnings through June 30, 2006. Each employee in Plan A contributed 9.25% of monthly earnings. Under Plan B, each participating employer contributed an amount equal to 9.75% of each and every member's earnings. Each employee in Plan B contributed 5% of monthly earnings.

The System also receives 1/4 of 1% of ad valorem taxes collected within the parishes of Louisiana, except for Orleans Parish.

Tax monies 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 were determined according to actuarial requirements and were set annually. The contribution requirement for the years ended June 30, 2009, 2008, and 2007, was approximately \$23,000, \$22,000 and \$625,000, respectively, which consisted of \$14,000, \$13,000 and \$399,000, respectively, from the Hospital and \$9,000, \$9,000, and \$226,000, respectively, from the employees during 2009, 2008, and 2007.

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, 2008, (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 \$887 million. The System's net assets available for benefits on that date (valued at market) was approximately \$808 million, with an unfunded pension benefit obligation of \$79 million. The Hospital's contributions for the years ended June 30, 2009, 2008, and 2007, represented approximately .06%, .05% and 1.5% of total contributions paid by all participating entities, respectively. 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.

The Hospital withdrew from the Municipal Employees' Retirement System effective December 31, 2006.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 12 - PENSION PLAN (Continued)

Effective January 1, 2007, employees may participate in a qualified defined contribution retirement plan (exempt under Section 457(b) of the Internal Revenue Code). Each employee is eligible to join the plan upon completion of 90 days of continuous full-time employment. Employees are immediately 100% vested on contributions to the plan through a salary reduction agreement.

Effective January 1, 2007, the Hospital sponsors a money purchase pension plan (exempt under Section 401(a) of the Internal Revenue Code). The Hospital contributes a match amount equal to the 457(b) employee deferral contribution up to a maximum of 5% of compensation for eligible employees that are actively employed on the last day of each plan year.

Following is a schedule that summarizes information regarding the defined contribution retirement plans in effect for the years ended June 30, 2009 and June 30, 2008 and six months ended June 30, 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total payroll	\$ 7,236,000	\$ 7,125,000	\$ 6,595,000
Total covered payroll	7,136,000	7,032,000	2,399,000
Employee contributions	251,000	252,000	112,000
Employer contributions	217,000	234,000	103,000

NOTE 13 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 2) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 13 - CONTINGENCIES (Continued)

Violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional and General Liability Risk - Effective for claims filed after May 1, 2004, the Hospital discontinued professional and general liability insurance coverage through the Louisiana Hospital Association Trust Fund. The Hospital continues to participate in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to health care providers. The PCF provides for \$400,000 in coverage for actual claims (attorney fees are the Hospital's responsibility) per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The PCF places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

The Hospital included provision of \$48,000, \$58,000 and \$39,600 at June 30, 2009, 2008 and 2007, respectively, for professional liability losses and legal defense costs not covered by the Louisiana Patient's Compensation Fund. The Hospital is contingently liable for losses and related defense costs from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

The Hospital included a provision of \$-0-, \$-0- and \$5,400 at June 30, 2009, 2008 and 2007 for uninsured general liability losses. The Hospital is contingently liable for losses and related defense costs from general liability.

A reconciliation of the changes in the aggregate uninsured professional and general liability is as follows:

	Professional/General Liability		
	2009	2008	2007
Balance, beginning of year	\$ 58,000	\$ 45,000	\$ 43,000
Claim payments	(63,000)	(57,770)	(58,416)
Change in estimate	(18,000)	9,965	15,416
Incurred claims	71,000	60,805	45,000
Balance, end of year	\$ 48,000	\$ 58,000	\$ 45,000

**HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007**

NOTE 13 - CONTINGENCIES (Continued)

Workers' Compensation Liability Risk - Effective for claims filed after August 1, 2004, the Hospital discontinued workers' compensation insurance coverage. The Hospital included a provision of \$13,000, \$82,000 and \$50,000 at June 30, 2009, 2008 and 2007 for uninsured workers' compensation losses and related defense costs. The Hospital is contingently liable for losses and related defense costs from workers' compensation.

A reconciliation of the changes in the aggregate uninsured workers' compensation liability is as follows:

	<i>Workers' Compensation</i>		
	2009	2008	2007
Balance, beginning of year	\$ 82,000	\$ 50,000	\$ 71,000
Claim payments	-0-	(23,245)	(24,134)
Change in estimate	(87,000)	(49,288)	(20,866)
Incurred claims	18,000	104,533	24,000
Balance, end of year	\$ 13,000	\$ 82,000	\$ 50,000

NOTE 14 - GRANT REVENUE

On January 22, 2008, the Hospital entered into a Hospital Information System Funding Agreement with the Rural Hospital Coalition, Inc. (RHC), whereby the RHC shall provide to the Hospital an amount not to exceed \$1,000,000 from State of Louisiana appropriated funds for use in purchasing computer hardware, software and related services to create a health information system (HIS) and participate in the Louisiana Rural Health Information Exchange (LARHIX) system, a cooperative endeavor with the RHC, the Louisiana Department of Health and Hospitals (DHH), and Louisiana State University Health Sciences Center-Shreveport (LSUHSC-S). The Hospital expended and has recognized \$998,587 as capital grant income in the fiscal period ended June 30, 2008. If the Hospital fails, as determined solely by the RHC and DHH, to implement the HIS or fully participate in LARHIX, the computer vendor shall transfer upon written notice and to the extent possible the HIS or any portion thereof to a replacement hospital selected by the RHC and DHH.

NOTE 15 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of \$239,692 and \$80,967 are included in capital grants and contributions for the years ended June 30, 2009 and 2008, respectively. Hospital support of operational expenses for the Foundation were \$145,538 and \$101,292 during years ended June 30, 2009 and 2008, respectively.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009, 2008 AND 2007

NOTE 16 - SUBSEQUENT EVENTS

Events have been evaluated through October 13, 2009, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Routine services:			
Adult and pediatric	\$ 5,571,301	\$ 5,457,728	\$ 5,648,382
Intensive care unit	895,712	891,394	937,457
Senior care	1,368,510	1,530,157	1,609,165
Nursery	25,237	16,280	19,140
Swing bed	<u>125,760</u>	<u>149,402</u>	<u>159,461</u>
 Total routine services	 <u>7,986,520</u>	 <u>8,044,961</u>	 <u>8,373,605</u>
Other professional services:			
Operating room			
Inpatient	1,404,452	373,646	212,715
Outpatient	<u>697,077</u>	<u>408,255</u>	<u>403,534</u>
 Total	 <u>2,101,529</u>	 <u>781,901</u>	 <u>616,249</u>
Anesthesia			
Inpatient	10,832	-0-	-0-
Outpatient	<u>14,397</u>	<u>-0-</u>	<u>-0-</u>
 Total	 <u>25,229</u>	 <u>-0-</u>	 <u>-0-</u>
Radiology			
Inpatient	2,232,548	1,930,552	1,978,688
Outpatient	<u>4,604,118</u>	<u>4,388,930</u>	<u>4,900,763</u>
 Total	 <u>6,836,666</u>	 <u>6,319,482</u>	 <u>6,879,451</u>
Laboratory			
Inpatient	3,034,187	3,097,557	3,383,233
Outpatient	<u>1,993,098</u>	<u>1,970,606</u>	<u>1,859,131</u>
 Total	 <u>5,027,285</u>	 <u>5,068,163</u>	 <u>5,242,364</u>
Blood			
Inpatient	557,233	386,325	244,440
Outpatient	<u>128,120</u>	<u>112,995</u>	<u>50,830</u>
 Total	 <u>\$ 685,353</u>	 <u>\$ 499,320</u>	 <u>\$ 295,270</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Respiratory therapy			
Inpatient	\$ 2,993,408	\$ 2,686,580	\$ 2,784,424
Outpatient	<u>251,271</u>	<u>191,787</u>	<u>210,082</u>
Total	<u>3,244,679</u>	<u>2,878,367</u>	<u>2,994,506</u>
Physical therapy			
Inpatient	107,149	60,169	54,285
Outpatient	<u>258</u>	<u>251</u>	<u>513</u>
Total	<u>107,407</u>	<u>60,420</u>	<u>54,798</u>
Occupational therapy			
Inpatient	125,406	97,465	26,876
Outpatient	<u>2,808</u>	<u>210</u>	<u>1,613</u>
Total	<u>128,214</u>	<u>97,675</u>	<u>28,489</u>
Electrocardiology			
Outpatient	<u>11,064</u>	<u>10,752</u>	<u>16,761</u>
Total	<u>11,064</u>	<u>10,752</u>	<u>16,761</u>
Central supply			
Inpatient	591,543	1,496,747	1,507,534
Outpatient	<u>90,638</u>	<u>426,061</u>	<u>569,497</u>
Total	<u>682,181</u>	<u>1,922,808</u>	<u>2,077,031</u>
Pharmacy			
Inpatient	7,205,199	9,068,431	9,483,044
Outpatient	<u>1,050,251</u>	<u>1,335,016</u>	<u>1,285,171</u>
Total	<u>\$ 8,255,450</u>	<u>\$ 10,403,447</u>	<u>\$ 10,768,215</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Emergency room			
Inpatient	\$ 489,455	\$ 434,571	\$ 475,161
Outpatient	<u>2,970,094</u>	<u>2,603,115</u>	<u>2,678,264</u>
Total	<u>3,459,549</u>	<u>3,037,686</u>	<u>3,153,425</u>
Neurology			
Inpatient	5,873	11,862	16,116
Outpatient	<u>240,943</u>	<u>165,898</u>	<u>192,469</u>
Total	<u>246,816</u>	<u>177,760</u>	<u>208,585</u>
Home health			
Skilled nursing visits	388,400	416,200	439,000
Physical therapy visits	53,800	58,300	31,200
Occupational therapy visits	140,200	138,200	135,700
Speech therapy visits	7,900	3,400	1,100
Social service visits	200	100	-0-
Aide visits	<u>152,100</u>	<u>193,300</u>	<u>185,900</u>
Total	<u>742,600</u>	<u>809,500</u>	<u>792,900</u>
Other professional services			
Inpatient	18,757,285	19,643,905	20,166,516
Outpatient	12,054,137	11,613,876	12,168,628
Home health	<u>742,600</u>	<u>809,500</u>	<u>792,900</u>
Total other professional services	<u>31,554,022</u>	<u>32,067,281</u>	<u>33,128,044</u>
Gross patient service charges	<u>39,540,542</u>	<u>40,112,242</u>	<u>41,501,649</u>
Contractual adjustments	21,146,279	23,290,445	24,079,039
Provision for bad debts	2,668,987	3,094,499	2,719,284
Charity care	-0-	91,169	114,833
Uncompensated care reimbursement	<u>(741,092)</u>	<u>(1,663,954)</u>	<u>(1,391,072)</u>
Total patient service allowances	<u>23,074,174</u>	<u>24,812,159</u>	<u>25,522,084</u>
Net patient service revenue	\$ <u>16,466,368</u>	\$ <u>15,300,083</u>	\$ <u>15,979,565</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF OTHER OPERATING REVENUE
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cafeteria	\$ 62,507	\$ 44,135	\$ 40,236
Medical records	6,780	4,140	8,559
Vending machines	2,871	2,436	3,152
Rentals	5,400	6,275	4,250
Pharmacy sales to employees	40,662	8,581	7,167
Property insurance proceeds	-0-	-0-	89,118
Miscellaneous	<u>75,248</u>	<u>137,622</u>	<u>35,199</u>
Total other operating revenue	\$ <u>193,468</u>	\$ <u>203,189</u>	\$ <u>187,681</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Salaries:			
Administrative and general	\$ 896,585	\$ 881,174	\$ 748,953
Plant operations and maintenance	81,976	89,734	82,404
Housekeeping	264,635	281,873	257,181
Dietary and cafeteria	156,335	167,865	163,816
Nursing administration	71,299	68,783	123,335
Central supply	71,811	90,408	77,267
Pharmacy	67,352	64,551	56,590
Medical records	247,470	227,117	207,798
Nursing services	2,116,932	2,013,828	1,849,851
Intensive care unit	533,913	544,104	501,455
Senior care unit	461,548	452,244	439,263
Nursery	14,075	15,683	16,154
Operating room	215,400	206,871	208,294
Radiology	307,200	305,412	268,292
Laboratory	348,317	343,435	326,194
Respiratory therapy	361,026	352,604	319,658
Emergency room	697,342	701,631	650,950
Home health	<u>322,398</u>	<u>317,938</u>	<u>298,030</u>
 Total salaries	 \$ <u>7,235,614</u>	 \$ <u>7,125,255</u>	 \$ <u>6,595,485</u>
Benefits and payroll taxes:			
Payroll taxes	\$ 564,520	\$ 549,392	\$ 352,180
Health insurance	731,672	673,630	647,134
Retirement	<u>205,194</u>	<u>260,033</u>	<u>503,333</u>
 Total benefits and payroll taxes	 \$ <u>1,501,386</u>	 \$ <u>1,483,055</u>	 \$ <u>1,502,647</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF OPERATING EXPENSES – SUPPLIES AND DRUGS
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Administration	\$ 473,276	\$ 303,958	\$ 169,782
Housekeeping	139,619	151,584	173,514
Maintenance	111,297	102,829	70,257
Dietary	258,284	237,475	210,711
Medical records	53,620	49,178	43,225
Adults and pediatrics	206,232	261,246	241,544
Intensive care unit	68,490	20,426	40,025
Nursery	1,243	1,956	2,078
Emergency room	113,221	99,013	69,369
Operating room	182,015	110,182	248,781
Anesthesiology	5,251	2,617	6,143
Radiology	416,254	570,409	563,532
Laboratory	347,667	352,426	326,359
Blood	213,925	168,002	174,181
Physical therapy	50	-0-	-0-
EEG	27,380	41,805	42,340
Central supply	19,932	15,316	8,971
Respiratory therapy	52,349	70,919	71,699
Pharmacy	1,163,040	1,220,480	1,244,164
Home health	51,845	27,758	22,429
Senior care	<u>28,517</u>	<u>23,499</u>	<u>15,699</u>
 Total supplies and drugs	 \$ <u>3,933,507</u>	 \$ <u>3,831,078</u>	 \$ <u>3,744,803</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Adults and pediatrics	\$ 77,827	\$ 77,395	\$ 74,260
Operating room	44,675	27,585	-0-
Emergency room	638,097	601,639	598,198
Anesthesiology	198,185	168,797	122,527
Physical therapy	43,350	21,550	20,250
Occupational therapy	26,250	12,860	5,100
Pharmacy	345,648	325,932	275,700
Radiology	138,095	141,095	141,450
Home health	131,940	134,294	110,035
Senior care	118,885	75,025	24,000
Dietary	20,055	13,592	12,192
Administration	<u>116,892</u>	<u>124,568</u>	<u>-0-</u>
 Total professional fees	 \$ <u>1,899,899</u>	 \$ <u>1,724,332</u>	 \$ <u>1,383,712</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Management fees	\$ 65,544	\$ 202,414	\$ 236,370
Legal and accounting	94,351	267,592	244,625
Repairs and maintenance	142,523	174,116	212,270
Utilities	378,191	317,967	301,304
Telephone	65,301	56,124	53,674
Travel	31,414	30,266	28,692
Rentals	119,006	117,811	140,864
License, inspection and membership fees	2,303	43,339	61,036
Education	24,474	24,446	24,292
Postage	29,679	13,442	27,225
Public relations	24,559	31,210	14,275
Education contracts	3,414	20,375	20,375
Miscellaneous	<u>132,901</u>	<u>61,106</u>	<u>139,745</u>
 Total other expenses	 \$ <u>1,113,660</u>	 \$ <u>1,360,208</u>	 \$ <u>1,504,747</u>

HOMER MEMORIAL HOSPITAL AND AFFILIATE
 SCHEDULE OF PER DIEM AND
 OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS
 YEARS ENDED JUNE 30, 2009, 2008, AND 2007

Commissioners:	---- TERM ----		Compensation 2009
	<u>BEGAN</u>	<u>ENDING</u>	
Mr. Thomas "Buddy" Pixley, Chairman (Mayor's Designee effective January, 2008)	Jan. 2000	Dec. 2010	None
Mr. Wesley Emerson, Vice-chairman	Jan. 2007	Dec. 2011	None
Mrs. Chloe Ellen Watson, Secretary	Jan. 2006	Dec. 2010	None
Mrs. Alecia Levingston Smith	Jan. 2006	Dec. 2010	None
Mrs. Dottie Palmer	Jan. 2001	Dec. 2010	None
Mr. Mac Rushing	Jan. 2007	Dec. 2011	None
Mr. George Tigner	Jan. 2008	Dec. 2012	None
Mrs. Charles Etta Johnson	Jan. 2003	Dec. 2012	None
Dr. Cliff Salmon	Medical Staff Representative		None
Mayor David Newell	Jan. 2007	Dec. 2007	None
Mr. C. C. Austin (Mayor's Designee)	Jan. 2003	Dec. 2006	None
Mayor Huey Dean	Jan. 2003	Dec. 2006	None
Mr. Lawson Wilder	Jan. 2002	Dec. 2006	None



LESTER, MILLER & WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 Bayou Rapides Rd. • Alexandria, LA 71303

Members:

American Institute of CPA's

Society of Louisiana CPA's

Bobby G. Lester, CPA

John S. Wells, CPA

Robert G. Miller, CPA

Paul A. Delaney, CPA

Mary L. Carroll, CPA

Brenda J. Lloyd, CPA

Mailing Address: Post Office Box 8758 • Alexandria, Louisiana 71306-1758 • Telephone (318) 487-1450 • Facsimile (318) 445-1184

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

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital and its affiliate (the Hospital) as of and for the years ended June 30, 2009, 2008 and 2007, and have issued our report thereon dated October 13, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2009-01, 2009-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control. We believe that the following deficiency constitutes a material weakness: 2009-02

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under Government Auditing Standards.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This communication is intended for the information and use of the management, Board of Commissioners and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

Certified Public Accountants

Alexandria, Louisiana
October 13, 2009



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

Internal Controls

2009-01 - Charge Master

Finding: Charge master maintenance was performed by employees who lacked proper training. New charge codes were created with identifier digits inconsistent with the template initiated during May 2008, computer conversion. Charge codes were created for items such as medical supplies and drugs with assignments to general ledger revenue accounts based on patient location such as emergency, surgery and nursing services.

Recommendation: Management should review policies and procedures for the charge master committee. Medical records, billing and accounting should have representatives on the committee. Authority for charge master maintenance duties should be limited to fully trained staff members. Revenue codes created since the May 2008, computer conversion should be reviewed and corrected so that future charges post consistently according to Hospital policy.

Response: The Charge Master Committee will meet and ensure that policies and procedures are followed when creating new charge codes so there is a match between the charge master and the revenue codes. Revenue codes created since the computer conversion in May 2008, will be reviewed to make sure that revenue is being posted correctly.

2009-02 - Home Health Patient Receivables

Finding: Allowances for home health patient receivables were understated thereby overstating net patient service revenue. The Hospital calculates home health allowances based on historical cash receipts and gross charges. However, management did not take into account unusual write-offs during the year. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

Recommendation: We suggest that management more closely monitor collection experience and more quickly react to changes that affect receivables reporting. Additionally, we suggest using accounting reports from the home health patient receivables software to establish additional oversight and accounting controls over home health patient receivables valuation.

Response: A monthly reconciliation of the Home Health accounts receivable to the General Ledger will be completed based on the reports obtained from the patient receivables software. A log-in to the Home Health patient receivables software has been requested for the CFO from the IT department in order to be able to obtain the necessary accounting reports. The Home Health receivables will be closely monitored to ensure the proper collection of patient balances and that accounts are billed in a timely manner in order to maximize reimbursement.



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

2009-03 - Allowance for Contractuals

Finding: Improvement in estimating allowances for Hospital patient accounts receivable was noted. However, assumptions in patient volume within each financial class could result in future misstatements.

Recommendation: We suggest that management update the model used to calculate the allowance for contractual adjustments to separately identify accounts receivable for Inpatient, Outpatient, Swing Bed and Senior Care.

Response: The General Ledger will be updated to include accounts to separately identify contractual allowances for Inpatient, Outpatient, Swing Bed and Senior Care. The current model used to compute contractual allowances will be modified to separate computation of allowances based on financial class and hospital service code in order to be able to track the fluctuation of patient volume within each financial class more closely.



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

Prior Year Findings

Internal Controls

2008-01 - Inventory

Finding: Generally accepted accounting principles require adjustment of inventory to lower of cost or fair market value based on physical quantities on hand. The Hospital compiled a list of inventory on hand at year end, however, the list was not timely priced nor extended to allow the recording of its value

Recommendation: Management should review staff scheduling for inventory count sheet processing and consider utilizing computerized spreadsheets and/or the new computer system's perpetual module in order to expedite the results of inventory physical count to facilitate timely recording of value.

Response: Due to time constraints with only two months on the new computer system before fiscal year end, all items were not entered to be able to compute the totals through the system. Inventory in future years will utilize the computer system's perpetual system. For those departments that are not on perpetual inventory, items will be set-up in the department master with prices attached so that counts will be entered into the system once completed and the valuation of the inventory will be calculated through the system.

Resolution: This matter is resolved.

2008-02 - Patient Accounts Receivable

Finding: Allowances for Hospital patient accounts receivable were understated thereby overstating net patient service revenue. The Hospital calculates allowances based on payment percentages multiplied times gross patient accounts receivable, however, management did not take into account the timely filing requirements. A large number and amount of claims were past timely filing deadlines. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

Recommendation: We suggest that management more closely monitor collection experience and more quickly react to changes that affect receivables reporting. Additionally, we suggest using recent paid claims history, four or five months, to establish collectible percentages, with adjustments for special circumstances such as price or payment changes which are not in historical trends.

Response: Due to the turnover of key personnel in the business office, accounts receivable was not monitored as closely as needed. The formula used to compute monthly contractual adjustments was based on total receivables by financial class not taking into consideration the age of the accounts. Formulas used to compute the estimated contractual adjustments each month will be changed to consider the age of the receivables. Also, the new business office manager will monitor accounts receivable closely to ensure that accounts do not exceed the timely filing deadlines.

Resolution: This matter is resolved.



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

Internal Controls

2007-01 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 more definitely requires management ensure the propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Due to our hospital's size, the cost of obtaining and/or training personnel with the complete knowledge of GAAP would not be cost effective.

Resolution: This matter is not resolved.

2007-02 - Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes (1) separating transaction authorization from custody of related assets; (2) separating transaction recording from general ledger posting and maintenance; (3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Areas noted will be reviewed and further segregation of duties will be implemented where possible. For areas where segregation to the extent desired is not possible due to the size of the department, supervision and review by management will be increased.

Resolution: This matter is not resolved.



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

2007-03 - Home Health Revenue and Receivables

Finding: Home health patient revenue billing has not been processed in a timely manner since conversion to a new software computer system in May, 2006. Improper training and/or procedures for home health department billing is reflected in data errors and late filing issues. Computer conversion occurred during fiscal year 2008 but charge master capture of medical supplies provided during home health visits is still missing.

Recommendation: We recommend that the client request additional training for computer software and modify charge master for capture of medical supplies provided during home health visits.

Response: Conversion to a new computer system took place during fiscal year 2008 and, due to time constraints related to the transition, charges for home health medical supplies will be addressed during fiscal year ending June 30, 2009. The charge master will be updated to capture the medical supply charges associated with the home health visits.

Resolution: This matter is not resolved.

2007-04 - Signature Stamp

Finding: Hospital management utilizes a signature stamp for check signing. The signature stamp is utilized by employees who also have check processing and/or bank account reconciliation responsibilities.

Recommendation: Effective internal control requires segregation of duties in order to prevent the opportunity for fraud and improve probability for detection of fraud. If adding other authorized persons on bank signature cards is not feasible, other mitigating factors should continue to be reviewed and placed in practice.

Response: The signature stamp is used only for payroll on checks that are not direct deposit. Once the new computer system is implemented, an electronic signature will be used on checks that are not direct deposit. The only time that the signature stamp would be used for accounts payable is when both of the hospital personnel on the signature card are out of the office at the same time. The bank will be notified when this situation presents itself.

Resolution: This matter has been resolved.



HOMER MEMORIAL HOSPITAL AND AFFILIATE
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009, 2008, AND 2007

Compliance

2007-05 - Fidelity Bond

Finding: Effective January 1, 2007, the Hospital sponsored two defined contribution retirement plans: IRC 401(a) plan for employee elective deferrals and IRC 457(b) plan for employer match contributions. ERISA, DOL and IRS regulations require that employers obtain fidelity bond coverage for certain pension plans.

Recommendation: We suggest that management consider compliance regulations regarding fidelity bond coverage.

Response: Hospital management has already contacted insurance agent regarding minimum fidelity bond requirements for new retirement plans.

Resolution: This matter has been resolved.

