

HOMER MEMORIAL HOSPITAL
BASIC FINANCIAL STATEMENTS WITH
MANAGEMENT'S DISCUSSION AND
ANALYSIS AND INDEPENDENT
AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2005, 2004 AND 2003

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 2-22-06

HOMER MEMORIAL HOSPITAL
TOWN OF HOMER, STATE OF LOUISIANA
HOSPITAL ENTERPRISE FUND
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Management's Discussion and Analysis	i-vi
Independent Auditors' Report on the Basic Financial Statements and Supplementary Information	1
BASIC FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenue, Expenses, and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-22
SUPPLEMENTARY INFORMATION	
Schedules of Net Patient Service Revenue	24-26
Schedules of Other Operating Revenue	27
Schedules of Operating Expenses	28-31
Schedule of Per Diem and Other Compensation Paid to Board Members	32
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	33-36

Homer Memorial Hospital

Management's Discussion and Analysis

This section of Homer Memorial Hospital's (the 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, 2005, 2004, and 2003. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by \$56,000 or approximately 1% during fiscal year 2005 compared to an increase of \$413,000 (4%) and \$189,000 (2%) in fiscal years 2004 and 2003, respectively.
- During the fiscal year 2005, the Hospital made significant cash investments in improvements in its physical plant, new equipment, and future expansion plans. Table 2 details these investment activities.
- During fiscal year 2005, the Hospital's net patient revenue decreased by \$290,000 or 1.83% compared to an increase of \$1,197,000 (8.15%) and \$1,461,000 (11.05%) in fiscal years 2004 and 2003, respectively. Total expenses increased \$344,000, \$468,000, and \$552,000 in fiscal years 2005, 2004, and 2003, respectively, or 2.25%, 3.16%, and 3.88%, respectively. Overall activity at the Hospital, as measured by patient days remained virtually unchanged at 10,922 in fiscal year 2005 as compared to 10,941 and 10,745 in fiscal years 2004 and 2003, respectively. Average daily census remained stable at 29.92, 29.98 and 29.44 in fiscal years 2005, 2004, and 2003, respectively.
- The Hospital received \$652,614, \$733,214, and \$675,018 in Medicaid disproportionate share payments during fiscal years 2005, 2004, and 2003, respectively.

Required Financial Statements

The basic 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 Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past two years 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 Revenue, 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

	June 30,			
	2005	2004	2003	2002
Total current assets	\$ 6,167,652	\$ 5,881,412	\$ 5,884,212	\$ 5,759,498
Assets limited as to use (non current)	1,777,035	1,783,636	1,102,058	1,242,286
Property, plant and equipment	2,848,572	3,072,349	3,337,855	3,133,028
Total assets	<u>\$ 10,793,259</u>	<u>\$ 10,737,397</u>	<u>\$ 10,324,125</u>	<u>\$ 10,134,812</u>
Total current liabilities	\$ 957,778	\$ 934,827	\$ 1,023,665	\$ 983,927
Long-term debt, net of current	2,329,358	2,543,468	2,784,378	2,752,163
Total liabilities	<u>3,287,136</u>	<u>3,478,295</u>	<u>3,808,043</u>	<u>3,736,090</u>
Net assets:				
Invested in capital assets, net of debt	2,703,805	2,818,127	2,969,500	2,945,072
Restricted net assets	1,014,493	842,267	550,060	530,662
Unrestricted net assets	3,787,825	3,598,708	2,996,522	2,922,988
Total liabilities and net assets	<u>\$ 10,793,259</u>	<u>\$ 10,737,397</u>	<u>\$ 10,324,125</u>	<u>\$ 10,134,812</u>

As can be seen in Table 1, total assets increased by \$56,000 to \$10,793,000 in fiscal year 2005, up from \$10,737,000 in fiscal year 2004. The change in total net assets results primarily from disproportionate share payments received by the Hospital.

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

The Hospital paid cash for all of the acquisitions listed in the table below.

TABLE 2
Capital Investments

<u>Equipment</u>	<u>2005</u> <u>Cost</u>
Radiology information system	\$ 15,190
Crash carts	8,103
Defibrillator	7,309
Portable x-ray	36,020
Bronchoscope	10,745
Hematology analyzer	47,806
PCA pumps	9,750
Computers	5,832
Medical records scanner	9,935
Biological safety cabinet	5,332
Patient room sofas	17,444
1998 Chevrolet truck	6,840
Total equipment	<u>180,306</u>
<u>Construction / Maintenance</u>	
Building weatherization	47,891
Minor surgery room flooring	5,612
Storage building wall	6,400
Fire proofing	7,799
Emergency oxygen fill box	5,515
Total construction / maintenance	<u>73,217</u>
Total acquisitions	<u>\$ 253,523</u>

Sources of Revenue

Operating Revenue

During fiscal years 2005, 2004, and 2003, 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 payors and patients who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and other third-party payors 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 volume for patients served by payor for the fiscal years ended June 30, 2005, 2004 and 2003. Inpatient (acute and psychiatric), outpatient and home health patients are included in the statistics below.

TABLE 3
Payor Mix by Percentage

	Year ended June 30		
	2005	2004	2003
Medicare	53.84%	55.93%	58.02%
Medicaid	16.51%	14.68%	12.64%
Commercial	18.87%	19.42%	20.27%
Self-pay and other	10.78%	9.97%	9.08%
Total patient revenue	<u>100.00%</u>	<u>100.00%</u>	<u>100.01%</u>

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 \$145,000, \$56,000, and \$66,000 in 2005, 2004, and 2003, respectively

Accounts Receivable

Total Accounts Receivable has increased and the Hospital is taking steps to reduce Accounts Receivable. The Hospital has experienced turnover in the collections department, but feels that the situation has stabilized and reduction of accounts receivable will continue in the near future

TABLE 4
Accounts Receivable Aging

	Year ended June 30		
	2005	2004	2003
Current accounts	\$ 2,756,032	\$ 2,483,082	\$ 1,757,494
30-day accounts	1,498,145	1,097,133	941,345
60-day accounts	567,425	613,332	506,426
90-day and over accounts	<u>3,301,254</u>	<u>2,696,848</u>	<u>2,085,447</u>
Total	<u>\$ 8,122,856</u>	<u>\$ 6,890,395</u>	<u>\$ 5,290,712</u>

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, 2005, 2004, 2003, and 2002.

TABLE 5
Condensed Statements of Revenue, Expenses and Changes in Net Assets

	Years Ended June 30,			
	2005	2004	2003	2002
Net patient service revenue	\$ 15,595,707	\$ 15,885,755	\$ 14,688,559	\$ 13,227,149
Other revenue	114,913	66,103	159,414	358,298
Total operating revenue	15,710,620	15,951,858	14,847,973	13,585,447
Salaries	5,735,774	5,532,133	5,404,381	5,011,381
Benefits and payroll taxes	1,272,724	1,137,593	1,029,158	897,732
Supplies and drugs	3,067,424	3,070,536	3,011,461	2,550,346
Professional fees	1,329,769	1,226,515	1,108,275	832,920
Other expenses	1,370,642	1,120,546	921,490	850,481
Insurance	198,973	328,866	403,457	323,524
Interest expense	167,020	189,475	195,777	185,556
Depreciation and amortization	551,573	547,843	527,665	499,384
Provision for bad debts	1,914,408	2,110,840	2,194,587	3,092,739
Total operating expenses	15,608,307	15,264,347	14,796,251	14,244,063
Operating income (loss)	102,313	687,511	51,722	(658,616)
Investment income	144,708	55,509	65,638	79,177
Revenues in excess of expenses	247,021	743,020	117,360	(579,439)
Net assets - beginning of year	7,259,102	6,516,082	6,398,722	6,978,161
Net assets - end of year	\$ 7,506,123	\$ 7,259,102	\$ 6,516,082	\$ 6,398,722

Homer Memorial Hospital

Management's Discussion and Analysis (continued)

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2005, 2004, and 2003:

- Overall activity at the Hospital, as measured by patient days remained virtually unchanged at 10,922 in fiscal year 2005 as compared to 10,941 and 10,745 in fiscal years 2004 and 2003, respectively. Average daily census remained stable at 29.92, 29.98 and 29.44 in fiscal years 2005, 2004, and 2003, respectively.
- Salaries increased by \$204,000 or approximately 3.68% in 2005 as compared to increases of \$128,000 (2.36%) and \$393,000 (7.84%) in 2004 and 2003, respectively. Employee benefits expense increased by \$135,000 or approximately 11.88% in 2005 as compared to increases of \$108,000 (10.54%) and \$131,000 (14.64%) in 2004 and 2003, respectively. The 2005 increase can be attributed to an increase in the Hospital's employer contribution rate to the retirement system from 11% to 15% of employee wages. The rising cost of skilled labor continues to be a concern for the Hospital. The Hospital incurs frequent overtime in an effort to maintain quality care.
- Investment income in 2005 was \$145,000, which is up approximately 161% from the previous year. While the Hospital had an increase in average funds deposited of \$262,000, the increase in interest rates significantly increased investment income. Investment income in 2004 and 2003 was \$56,000 and \$66,000, respectively.
- Professional fees increased by \$103,000 or 8.42% during 2005. Due to a shortage of staff in Respiratory Therapy and Nursing Services, agency personnel were utilized in order to maintain quality of care. Also, there was a significant increase in the outpatient therapies conducted through Claiborne Home Health. Professional fees increased by \$118,000 or 10.67% during 2004 and \$275,000 or 33.06% during 2003.
- Supply and drug cost remained basically unchanged during 2005. Management's creation of an internal staff committee to analyze supply utilization along with the acquisition of an automated pharmaceutical dispensing system, led to a containment of supply and drug costs. In fiscal year 2004 the supply and drug cost increase was \$59,000 or 1.96%. In fiscal year 2003 supply and drug cost rose \$461,000 or 18.08%.

Contacting the Hospital's Financial Manager

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 basic financial statements of Homer Memorial Hospital (the Hospital), as of and for the years ended June 30, 2005, 2004 and 2003 as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Homer Memorial Hospital, as of June 30, 2005, 2004 and 2003 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 August 19, 2005, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Board of Commissioners
Homer Memorial Hospital
Page Two

Management's discussion and analysis on pages "i" through "vi" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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
August 19, 2005



HOMER MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005, 2004 AND 2003

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Cash and cash equivalents (Notes 2 & 3)	\$ 133,731	\$ 87,732	\$ 975,263
Short-term investments	2,085,463	2,035,709	1,910,382
Receivables, net (Note 5)	2,117,899	2,098,446	1,573,052
Assets limited as to use - current (Note 4)	1,046,788	874,094	581,682
Inventories	476,315	444,451	450,939
Prepaid expenses	226,018	178,271	84,076
Other current assets (Note 6)	81,438	162,709	308,818
Total current assets	<u>6,167,652</u>	<u>5,881,412</u>	<u>5,884,212</u>
Assets limited as to use - non current (Note 4)	1,777,035	1,783,636	1,102,058
Property, plant and equipment, net (Note 7)	<u>2,848,572</u>	<u>3,072,349</u>	<u>3,337,855</u>
Total assets	<u>\$ 10,793,259</u>	<u>\$ 10,737,397</u>	<u>\$ 10,324,125</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current:			
Accounts payable	\$ 388,900	\$ 305,406	\$ 286,045
Accrued expenses	358,767	392,383	503,575
Current portion of long-term debt (Note 8)	<u>210,111</u>	<u>237,038</u>	<u>234,045</u>
Total current liabilities	<u>957,778</u>	<u>934,827</u>	<u>1,023,665</u>
Long-term debt, net of current portion (Note 8)	<u>2,329,358</u>	<u>2,543,468</u>	<u>2,784,378</u>
Total liabilities	<u>3,287,136</u>	<u>3,478,295</u>	<u>3,808,043</u>
Net Assets:			
Invested in capital assets, net of related debt	2,703,805	2,818,127	2,969,500
Restricted net assets	1,014,493	842,267	550,060
Unrestricted net assets	<u>3,787,825</u>	<u>3,598,708</u>	<u>2,996,522</u>
Total net assets	<u>7,506,123</u>	<u>7,259,102</u>	<u>6,516,082</u>
Total liabilities and net assets	<u>\$ 10,793,259</u>	<u>\$ 10,737,397</u>	<u>\$ 10,324,125</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue:			
Net patient service revenue (Note 10)	\$ 15,595,707	\$ 15,885,755	\$ 14,688,559
Other revenue	<u>114,913</u>	<u>66,103</u>	<u>159,414</u>
 Total revenue	 <u>15,710,620</u>	 <u>15,951,858</u>	 <u>14,847,973</u>
Expenses:			
Salaries	5,735,774	5,532,133	5,404,381
Benefits and payroll taxes	1,272,724	1,137,593	1,029,158
Supplies and drugs	3,067,424	3,070,536	3,011,461
Professional fees	1,329,769	1,226,515	1,108,275
Other expenses	1,370,642	1,120,546	921,490
Insurance	198,973	328,866	403,457
Interest expense	167,020	189,475	195,777
Depreciation and amortization	551,573	547,843	527,665
Provision for bad debts	<u>1,914,408</u>	<u>2,110,840</u>	<u>2,194,587</u>
 Total expenses	 <u>15,608,307</u>	 <u>15,264,347</u>	 <u>14,796,251</u>
 Operating income (loss)	 <u>102,313</u>	 <u>687,511</u>	 <u>51,722</u>
Other income:			
Investment income	<u>144,708</u>	<u>55,509</u>	<u>65,638</u>
 Excess (deficit) of revenue over expenses	 247,021	 743,020	 117,360
 Net assets at beginning of year	 <u>7,259,102</u>	 <u>6,516,082</u>	 <u>6,398,722</u>
 Net assets at end of year	 \$ <u>7,506,123</u>	 \$ <u>7,259,102</u>	 \$ <u>6,516,082</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Cash receipts from patients and third-party payors	\$ 13,661,846	\$ 13,249,521	\$ 13,896,278
Other receipts from operations	270,992	279,727	239,091
Cash payments for other operating expenses	(5,962,925)	(5,814,809)	(5,358,723)
Cash payments to employees and for employee-related costs	<u>(7,042,114)</u>	<u>(6,780,918)</u>	<u>(6,449,718)</u>
Net cash provided (used) by operating activities	<u>927,799</u>	<u>933,521</u>	<u>2,326,928</u>
Cash flows from investing activities:			
Investment income - restricted	68,910	17,000	19,268
Change in assets whose use is limited	(166,093)	(973,990)	120,625
Change in investments	<u>(49,754)</u>	<u>(125,327)</u>	<u>(896,371)</u>
Net cash provided (used) by investing activities	<u>(146,937)</u>	<u>(1,082,317)</u>	<u>(756,478)</u>
Cash flows from capital and related financing activities:			
Interest expense	(167,020)	(189,475)	(195,045)
Proceeds from issuance of long-term debt and notes payable	-0-	-0-	307,771
Principal payments on long-term debt and notes payable	(241,037)	(237,917)	(243,262)
Proceeds from disposal of assets	990	-0-	350
Purchase of property and equipment	<u>(327,796)</u>	<u>(311,343)</u>	<u>(732,492)</u>
Net cash provided (used) by capital and related financing activities:	<u>(734,863)</u>	<u>(738,735)</u>	<u>(862,678)</u>
Net increase (decrease) in cash and cash equivalents	45,999	(887,531)	707,772
Beginning cash and cash equivalents	<u>87,732</u>	<u>975,263</u>	<u>267,491</u>
Ending cash and cash equivalents	\$ <u>133,731</u>	\$ <u>87,732</u>	\$ <u>975,263</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest (net of interest capitalized)	\$ <u>167,020</u>	\$ <u>189,475</u>	\$ <u>195,777</u>
Schedule of noncash investing and financing activities			
Cost of new equipment under capital leases	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>307,771</u>
New obligations under capital leases	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>307,771</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 102,313	\$ 687,511	\$ 51,722
Interest expense considered capital financing activity	167,020	189,475	195,045
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation and amortization	551,573	547,843	527,665
(Gain) loss on disposal of asset	(990)	29,006	(350)
Interest income	75,798	38,509	46,371
(Increase) decrease in:			
Patient accounts receivable, net	(19,453)	(525,394)	1,402,307
Other assets	1,660	58,402	96,724
(Increase) decrease in:			
Accounts payable and accrued expenses	<u>49,878</u>	<u>(91,831)</u>	<u>7,444</u>
Net cash provided by operating activities	\$ <u>927,799</u>	\$ <u>933,521</u>	\$ <u>2,326,928</u>

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

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.

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.

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.

Basis of Accounting

The Hospital uses the accrual method of accounting. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Credit Risk

The District provides medical care primarily to residents of Claiborne and surrounding parishes (counties) and grants credit to those patients, substantially all of whom are local residents.

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 5. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Inventory

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

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and are recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Income Taxes

The Hospital is a political subdivision and exempt from taxation.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	15 to 40 years
Machinery and Equipment	5 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.

Pledged Assets

The Hospital's property, plant and equipment is pledged as collateral on the Hospital Revenue Bonds in the original amount of \$3,800,000.

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are included in income or loss from operations; all peripheral transactions are reported as a component of non-operating income.

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.

Presentation

Certain prior year amounts may have been reclassified in order to be presented comparatively with current year classifications.

**HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

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.

The Hospital's cash and investments are categorized to give an indication of the level of risk assumed at June 30, 2005, 2004 and 2003. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name.

Balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2005, 2004 and 2003.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 4 - 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>2005</u>	<u>2004</u>	<u>2003</u>
Restricted by third parties			
Bond Sinking fund	\$ 28,900	\$ 28,131	\$ 27,815
Bond Reserve fund	338,091	329,095	325,394
Bond Contingency fund	233,904	213,512	196,851
Self-funded insurance fund	<u>413,598</u>	<u>271,529</u>	<u>-0-</u>
<i>Total restricted by third parties</i>	<u>1,014,493</u>	<u>842,267</u>	<u>550,060</u>
Restricted by Hospital Board			
Education fund	90	89	89
Funded depreciation	32,205	31,738	31,533
Long-term investment fund	961,098	935,525	925,002
Capital improvement	41,032	93,804	177,056
Investment fund #2	<u>774,905</u>	<u>754,307</u>	<u>-0-</u>
<i>Total restricted by Hospital Board</i>	<u>1,809,330</u>	<u>1,815,463</u>	<u>1,133,680</u>
Total assets limited as to use	2,823,823	2,657,730	1,683,740
Less: Current portion	<u>1,046,788</u>	<u>874,094</u>	<u>581,682</u>
Non current assets limited as to use	\$ <u>1,777,035</u>	\$ <u>1,783,636</u>	\$ <u>1,102,058</u>

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 5 - ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accounts receivable and third-party settlements			
Net patient accounts receivable	\$ 5,535,790	\$ 5,346,432	\$ 4,340,409
Estimated uncollectibles	<u>(2,845,178)</u>	<u>(2,610,309)</u>	<u>(2,324,765)</u>
Net accounts receivable	2,690,612	2,736,123	2,015,644
Third-party cost based settlements and other receivables	<u>(572,713)</u>	<u>(637,677)</u>	<u>(442,592)</u>
Receivables, net	\$ <u>2,117,899</u>	\$ <u>2,098,446</u>	\$ <u>1,573,052</u>

Concentration of credit risks in accounts receivable:

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 mix of receivables from patients and third-party payors was as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	41%	33%	29%
Medicaid	12%	14%	12%
Other third-party payors	14%	18%	17%
Others	<u>33%</u>	<u>35%</u>	<u>42%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

HOMER MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 6 - OTHER CURRENT ASSETS

Other assets consist of several accounts.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Physician loans, net	\$ -0-	\$ -0-	\$ 6,357
Education contracts, net	<u>81,438</u>	<u>162,709</u>	<u>302,461</u>
Total	\$ <u>81,438</u>	\$ <u>162,709</u>	\$ <u>308,818</u>

Physician loans

Loans to physicians are secured by notes payable from physicians, including interest charges at market rates. The following allowances are netted against the loan receivables.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Allowance for uncollectible loans	\$ <u>30,000</u>	\$ <u>30,000</u>	\$ <u>193,303</u>

Educational contracts

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>2005</u>	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 162,709	\$ 302,461	\$ 317,193
Assessment of interest on balances due	1,855	2,260	11,807
Changes in allowance for doubtful collections	-0-	-0-	701
Cancellation and repayments of contracts	(79,907)	(140,054)	(24,022)
Interest paid	<u>(3,219)</u>	<u>(1,958)</u>	<u>(3,218)</u>
Balance, end of year	\$ <u>81,438</u>	\$ <u>162,709</u>	\$ <u>302,461</u>

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2005

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land and improvements	\$ 284,732	\$ -0-	\$ -0-	\$ 284,732
Buildings and improvements	6,637,444	67,702	-0-	6,705,146
Leasehold improvements	15,105	5,515	-0-	20,620
Equipment	4,391,923	173,465	17,627	4,547,761
Leased assets	14,592	6,840	-0-	21,432
Construction in progress	<u>39,700</u>	<u>132,682</u>	<u>54,000</u>	<u>118,382</u>
Total	11,383,496	386,204	71,627	11,698,073
Accumulated depreciation	<u>(8,311,147)</u>	<u>(551,573)</u>	<u>(13,219)</u>	<u>(8,849,501)</u>
Net	\$ <u>3,072,349</u>	\$ <u>(165,369)</u>	\$ <u>58,408</u>	\$ <u>2,848,572</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2004.

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Land and improvements	\$ 275,732	\$ 9,000	\$ -0-	\$ 284,732
Buildings and improvements	6,546,936	121,573	31,065	6,637,444
Leasehold improvements	15,105	-0-	-0-	15,105
Equipment	4,337,476	235,611	181,164	4,391,923
Leased assets	14,592	-0-	-0-	14,592
Construction in progress	<u>92,401</u>	<u>9,750</u>	<u>62,451</u>	<u>39,700</u>
Total	11,282,242	375,934	274,680	11,383,496
Accumulated depreciation	<u>(7,944,387)</u>	<u>(547,843)</u>	<u>(181,083)</u>	<u>(8,311,147)</u>
Net	\$ <u>3,337,855</u>	\$ <u>(171,909)</u>	\$ <u>93,597</u>	\$ <u>3,072,349</u>

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2003

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land and improvements	\$ 264,028	\$ 11,704	\$ -0-	\$ 275,732
Buildings and improvements	6,517,756	29,180	-0-	6,546,936
Leasehold improvements	15,105	-0-	-0-	15,105
Equipment	4,160,353	607,207	430,084	4,337,476
Leased assets	14,592	-0-	-0-	14,592
Construction in progress	8,000	84,401	-0-	92,401
	<hr/>	<hr/>	<hr/>	<hr/>
Total	10,979,834	732,492	430,084	11,282,242
Accumulated depreciation	<u>(7,846,806)</u>	<u>(527,665)</u>	<u>(430,084)</u>	<u>(7,944,387)</u>
Net	<u>\$ 3,133,028</u>	<u>\$ 204,827</u>	<u>\$ -0-</u>	<u>\$ 3,337,855</u>

NOTE 8 - LONG-TERM DEBT

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
6.125% 1988 Hospital revenue bonds, principal maturing in varying annual amounts due June 15, 2017, collateralized by a pledge of the Hospital's land, buildings, and equipment	\$ 2,394,702	\$ 2,526,284	\$ 2,650,068
Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment with a cost of \$524,425 and book value of \$266,037 at June 30, 2005	<u>144,767</u>	<u>254,222</u>	<u>368,355</u>
Total debt	2,539,469	2,780,506	3,018,423
Less: Current portion	<u>(210,111)</u>	<u>(237,038)</u>	<u>(234,045)</u>
Debt less current portion	<u>\$ 2,329,358</u>	<u>\$ 2,543,468</u>	<u>\$ 2,784,378</u>

HOMER MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 8 - LONG-TERM DEBT (Continued)

A summary of long-term debt and capital lease obligations over the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Bond Debt Service</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2006	\$ 283,290	\$ 140,599	\$ 81,851
2007	283,290	149,457	73,028
2008	283,290	158,873	6,086
2009	283,290	168,881	-0-
2010	283,290	179,521	-0-
2011-2015	1,416,450	1,082,189	-0-
2016-2017	<u>543,191</u>	<u>515,182</u>	<u>-0-</u>
Total	\$ <u>3,376,091</u>	\$ <u>2,394,702</u>	160,965
Less amount representing interest under capital lease obligations			<u>(16,198)</u>
Capital lease obligation less amount representing interest			\$ <u>144,767</u>

The revenue bond indenture requires the Hospital to establish and maintain certain funds for the benefit of the bondholder, Farmers Home Administration. The funding requirements are as follows:

Sinking fund requirements - The Hospital is required to make monthly deposits of \$23,608. In June 1991, the Hospital began paying the debt in monthly installments in lieu of establishing a sinking fund. Accordingly, a sinking fund is not reflected in the financial statements.

Reserve fund requirements - The Hospital is required to make monthly deposits of \$2,361 until the fund has accumulated \$320,668. The Hospital met this requirement at June 30, 2005.

Contingency fund requirements - The Hospital is required to make monthly deposits of \$1,194. The Hospital met this requirement at June 30, 2005.

HOMER MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

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, 2005, that have initial or remaining lease terms in excess of one year

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 78,384
2007	78,384
2008	78,384
2009	-0-
2010	<u>-0-</u>
Total minimum lease payments	\$ <u>235,152</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 January 1, 2006. The additional payments received under the hold harmless provision were \$130,692, \$58,070 and \$90,538 for the years ended June 30, 2005, 2004 and 2003, 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 a cost reimbursement methodology subject to a target amount per discharge

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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

Prior to July 1, 1998, the home health department was reimbursed the lower of cost caps or actual cost per visit by Medicare. Effective July 1, 1998, reimbursement was changed to the interim payment system (IPS) as part of a long-term plan adopted by the Centers for Medicare and Medicaid Services (CMS) to pay for these services on a prospective basis (PPS).

Effective July 1, 1999, the IPS system reimbursement caps per unit of unduplicated census was changed again. The new reimbursement amount will be based upon two-thirds of the agency specific amount, and one-third of the national median amount. As of October 1, 2000, home health is paid under a PPS method

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>2005</u>	<u>2004</u>	<u>2003</u>
Gross patient service charges	\$ 31,480,203	\$ 30,668,212	\$ 28,149,656
Medicaid uncompensated care (UCC)	652,614	733,214	675,018
Medicare and Medicaid, without UCC	(13,634,053)	(13,235,358)	(11,842,652)
Other third-party payors	(2,821,964)	(2,204,257)	(2,205,769)
Charity care	<u>(81,093)</u>	<u>(76,056)</u>	<u>(87,694)</u>
Net patient service revenue	\$ <u>15,595,707</u>	\$ <u>15,885,755</u>	\$ <u>14,688,559</u>

The Hospital received interim amounts of \$652,614, \$733,214 and \$675,018 for Medicaid and self-pay uncompensated care services for the years ended June 30, 2005, 2004, and 2003, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and Hospital management has made provision for such recoupments. 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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 11 - COMPENSATED ABSENCES

As of June 30, 2005, 2004 and 2003, the Hospital has accrued a compensated absence liability of \$129,618, \$125,862 and \$142,840, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 12 - PENSION PLAN

All full-time Hospital employees participate in the Municipal Employees' Retirement System, State of Louisiana ("System"), a multiple employer public employee retirement system, (PERS). The payroll for Hospital employees covered by the System for the years ended June 30, 2005, 2004 and 2003, was approximately \$4,055,000, \$4,204,000 and \$3,719,000, respectively; the Hospital's total payroll was approximately \$5,736,000, \$5,532,000 and \$5,404,000 for the years ended June 30, 2005, 2004 and 2003, respectively.

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

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

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B, with thirty years of service at age fifty-five; twenty years of service at age sixty; fifteen years of service at age sixty-two; or ten years of service at age sixty-five, may elect to participate in the deferred retirement option plan (DROP) for up to two years and defer the receipt of benefits. Upon commencement of participation in the DROP plan, membership in the System terminates.

During participation in the DROP plan, employer contributions are payable but employee contributions cease. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance are paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases are payable to participants until employment which made them eligible to become members in the System has been terminated for at least one full year.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 12 - PENSION PLAN (Continued)

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan may receive, at his option, a lump sum from the account equal to the payment into the account, a true annuity based upon his actual balance in that fund, or any other method of payment if approved by the board of trustees. The monthly benefits that were being paid into the deferred retirement option plan fund will begin to be paid to the retiree. If a participant dies during the participation in the plan, a lump sum equal to his account balance in the plan fund shall be paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the two years, payments into the plan fund cease and the person resumes active contributing membership in the System. Additional accrued benefits are based on final average compensation used to calculate the member's original benefit unless the additional period of service is at least thirty-six months.

Generally, the monthly amount of retirement allowance for any member of Plan A or Plan B shall consist of an amount equal to three percent or two percent, respectively, of the member's final compensation multiplied by his/her years of creditable service. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts. Both plans provide for death and disability benefits. Benefits and employer/employee obligations to contribute are established by state statute.

Each participating employer of Plan A contributes an amount equal to 15% of each and every member's earnings. Each employee in Plan A contributes 9.25% of monthly earnings. Under Plan B, each participating employer contributes an amount equal to 9.5% of each and every member's earnings. Each employee in Plan B contributes 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 are determined according to actuarial requirements and are set annually. The contribution requirement for the years ended June 30, 2005, 2004, and 2003, was approximately \$984,000, \$855,000 and \$642,000, respectively, which consisted of \$612,000, \$466,000 and \$298,000, respectively, from the Hospital and \$372,000, \$389,000 and \$344,000, respectively, from the employees during 2005, 2004, and 2003.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 12 - PENSION PLAN (Continued)

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, 2004, (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 \$632 million. The System's net assets available for benefits on that date (valued at market) was approximately \$579 million, with an unfunded pension benefit obligation of \$76 million. The Hospital's contributions for the years ended June 30, 2005, 2004, and 2003, represented approximately 3% 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.

NOTE 13 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. 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.

HOMER MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 13 - CONTINGENCIES (Continued)

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 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 not covered and must be incurred fully) 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 a provision of \$37,600 for professional liability losses 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 \$5,400 for uninsured general liability losses. The Hospital is contingently liable for losses and related defense costs from general liability.

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 \$71,000 for uninsured workers' compensation losses. The Hospital is contingently liable for losses and related defense costs from workers' compensation.

SUPPLEMENTARY INFORMATION

HOMER MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Routine services:			
Adult and pediatric	\$ 4,373,651	\$ 4,410,627	\$ 4,418,185
Intensive care unit	830,660	774,070	769,250
Senior care	1,294,235	1,403,174	1,229,362
Nursery	13,400	12,600	14,400
Swing bed	<u>228,020</u>	<u>242,820</u>	<u>188,955</u>
 Total routine services	 <u>6,739,966</u>	 <u>6,843,291</u>	 <u>6,620,152</u>
Other professional services:			
Operating room			
Inpatient	243,282	239,764	262,924
Outpatient	<u>319,566</u>	<u>361,319</u>	<u>387,153</u>
 Total	 <u>562,848</u>	 <u>601,083</u>	 <u>650,077</u>
Anesthesia			
Inpatient	<u>-0-</u>	<u>732</u>	<u>-0-</u>
 Total	 <u>-0-</u>	 <u>732</u>	 <u>-0-</u>
Radiology			
Inpatient	1,812,729	1,857,991	1,631,110
Outpatient	<u>4,065,517</u>	<u>3,434,856</u>	<u>2,685,408</u>
 Total	 <u>5,878,246</u>	 <u>5,292,847</u>	 <u>4,316,518</u>
Laboratory			
Inpatient	2,025,731	1,806,600	1,612,329
Outpatient	<u>1,267,714</u>	<u>1,158,383</u>	<u>1,089,496</u>
 Total	 <u>3,293,445</u>	 <u>2,964,983</u>	 <u>2,701,825</u>
Blood			
Inpatient	74,352	99,810	98,409
Outpatient	<u>18,930</u>	<u>22,496</u>	<u>18,966</u>
 Total	 <u>\$ 93,282</u>	 <u>\$ 122,306</u>	 <u>\$ 117,375</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Respiratory therapy			
Inpatient	\$ 2,641,589	\$ 2,335,645	\$ 1,995,437
Outpatient	<u>170,802</u>	<u>163,410</u>	<u>158,054</u>
Total	<u>2,812,391</u>	<u>2,499,055</u>	<u>2,153,491</u>
Physical therapy			
Inpatient	28,456	32,211	50,879
Outpatient	<u>80</u>	<u>425</u>	<u>178</u>
Total	<u>28,536</u>	<u>32,636</u>	<u>51,057</u>
Occupational therapy			
Inpatient	<u>9,224</u>	<u>1,140</u>	<u>1,148</u>
Total	<u>9,224</u>	<u>1,140</u>	<u>1,148</u>
Electrocardiology			
Inpatient	57	196	67
Outpatient	<u>12,836</u>	<u>15,580</u>	<u>53,775</u>
Total	<u>12,893</u>	<u>15,776</u>	<u>53,842</u>
Central supply			
Inpatient	1,389,120	1,475,084	1,398,237
Outpatient	<u>495,889</u>	<u>537,436</u>	<u>535,396</u>
Total	<u>1,885,009</u>	<u>2,012,520</u>	<u>1,933,633</u>
Pharmacy			
Inpatient	5,975,489	6,165,375	5,764,860
Outpatient	<u>1,096,401</u>	<u>1,171,953</u>	<u>1,064,747</u>
Total	<u>7,071,890</u>	<u>7,337,328</u>	<u>6,829,607</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Emergency room			
Inpatient	\$ 339,900	\$ 376,014	\$ 374,961
Outpatient	<u>1,997,615</u>	<u>1,990,339</u>	<u>1,708,703</u>
Total	<u>2,337,515</u>	<u>2,366,353</u>	<u>2,083,664</u>
Neurology			
Inpatient	2,306	5,315	10,556
Outpatient	<u>175,652</u>	<u>126,347</u>	<u>156,211</u>
Total	<u>177,958</u>	<u>131,662</u>	<u>166,767</u>
Home health			
Skilled nursing visits	314,900	278,600	294,500
Physical therapy visits	112,100	63,500	46,800
Aide visits	<u>150,000</u>	<u>104,400</u>	<u>129,200</u>
Total	<u>577,000</u>	<u>446,500</u>	<u>470,500</u>
Other professional services			
Inpatient	14,542,235	14,395,877	13,200,917
Outpatient	9,621,002	8,982,544	7,858,087
Home health	<u>577,000</u>	<u>446,500</u>	<u>470,500</u>
Total other professional services	<u>24,740,237</u>	<u>23,824,921</u>	<u>21,529,504</u>
Gross patient service charges	<u>31,480,203</u>	<u>30,668,212</u>	<u>28,149,656</u>
Contractual adjustments	16,456,017	15,439,615	14,048,421
Charity care	81,093	76,056	87,694
Uncompensated care reimbursement	<u>(652,614)</u>	<u>(733,214)</u>	<u>(675,018)</u>
Total patient service allowances	<u>15,884,496</u>	<u>14,782,457</u>	<u>13,461,097</u>
Net patient service revenue	\$ <u>15,595,707</u>	\$ <u>15,885,755</u>	\$ <u>14,688,559</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED JUNE 30, 2005, 2004, AND 2003

	<u>2005</u>		<u>2004</u>		<u>2003</u>
Cafeteria	\$ 34,286	\$	40,833	\$	43,882
Medical records	8,625		2,459		11,443
Vending machines	2,088		2,615		1,891
Rentals	6,325		4,615		6,650
Pharmacy sales to employees	5,584		7,360		2,920
Stop loss recovery	-0-		-0-		60,000
Miscellaneous	<u>58,005</u>		<u>8,221</u>		<u>32,628</u>
Total other operating revenue	\$ <u>114,913</u>	\$	<u>66,103</u>	\$	<u>159,414</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2005, 2004, AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salaries:			
Administrative and general	\$ 763,165	\$ 740,835	\$ 701,154
Plant operations and maintenance	81,316	86,692	79,335
Housekeeping	210,938	188,357	197,531
Dietary and cafeteria	153,800	153,401	155,004
Nursing administration	64,008	78,911	68,858
Central supply	63,604	70,750	65,074
Pharmacy	62,686	91,973	154,956
Medical records	186,474	183,006	189,439
Nursing services	1,585,471	1,571,148	1,443,861
Intensive care unit	413,405	396,245	364,457
Senior care unit	408,918	430,979	442,849
Nursery	5,210	7,912	16,738
Operating room	202,609	197,492	183,166
Anesthesia	-0-	-0-	4,855
Radiology	230,130	202,325	174,918
Laboratory	301,449	257,635	251,089
Respiratory therapy	259,170	244,427	266,271
Emergency room	505,590	405,884	394,536
Home health	<u>237,831</u>	<u>224,161</u>	<u>250,290</u>
Total salaries	\$ <u>5,735,774</u>	\$ <u>5,532,133</u>	\$ <u>5,404,381</u>
Benefits and payroll taxes:			
Payroll taxes	\$ 169,858	\$ 158,651	\$ 149,990
Health insurance	490,657	512,841	552,258
Other	<u>612,209</u>	<u>466,101</u>	<u>326,910</u>
Total benefits and payroll taxes	\$ <u>1,272,724</u>	\$ <u>1,137,593</u>	\$ <u>1,029,158</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Administration	\$ 100,129	\$ 122,122	\$ 131,232
Housekeeping	130,574	104,943	102,425
Maintenance	33,104	50,396	50,190
Dietary	192,512	201,808	195,115
Medical records	74,555	81,102	33,962
Adults and pediatrics	274,113	200,087	185,777
Intensive care unit	43,811	18,952	24,699
Nursery	987	829	1,493
Emergency room	25,411	32,796	25,069
Operating room	152,338	143,008	204,880
Anesthesiology	1,312	1,312	3,744
Radiology	521,214	414,457	378,020
Laboratory	232,579	240,399	249,472
Blood	94,370	131,105	96,690
Physical therapy	-0-	16	23
EKG	-0-	11	-0-
EEG	46,565	42,375	41,400
Central supply	6,765	19,688	111,579
Respiratory therapy	55,996	34,882	46,007
Pharmacy	1,041,234	1,184,040	1,083,037
Home health	18,284	30,758	20,073
Senior care	<u>21,571</u>	<u>15,450</u>	<u>26,574</u>
 Total supplies and drugs	 \$ <u>3,067,424</u>	 \$ <u>3,070,536</u>	 \$ <u>3,011,461</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Adults and pediatrics	\$ 91,420	\$ 47,230	\$ 39,623
Operating room	-0-	-0-	50
Emergency room	616,596	640,113	628,513
Anesthesiology	114,164	80,845	84,411
Laboratory	500	66	3,356
Physical therapy	24,096	16,850	19,000
Occupational therapy	1,670	320	300
Respiratory therapy	27,521	-0-	-0-
Pharmacy	191,765	231,338	33,480
Radiology	135,614	122,475	189,396
Home health	88,039	43,200	40,175
Senior care	26,721	34,886	56,161
Dietary	10,418	8,692	6,854
Administration	<u>1,245</u>	<u>500</u>	<u>6,956</u>
 Total professional fees	 \$ <u>1,329,769</u>	 \$ <u>1,226,515</u>	 \$ <u>1,108,275</u>

HOMER MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Management fees	\$ 249,250	\$ 186,000	\$ 233,000
Legal and accounting	350,356	189,538	154,000
Repairs and maintenance	36,814	11,092	15,000
Utilities	253,264	240,382	221,213
Telephone	51,392	60,097	62,503
Travel	18,052	16,564	13,825
Rentals	138,384	135,595	60,125
Education	24,428	12,210	20,251
Public relations	5,021	3,143	6,968
Education contracts	70,393	130,284	-0-
Miscellaneous	<u>173,288</u>	<u>135,641</u>	<u>134,605</u>
 Total other expenses	 \$ <u>1,370,642</u>	 \$ <u>1,120,546</u>	 \$ <u>921,490</u>

HOMER MEMORIAL HOSPITAL
 SCHEDULE OF PER DIEM AND
 OTHER COMPENSATION PAID TO BOARD MEMBERS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	---- TERM ----		<u>2005</u>
	<u>BEGAN</u>	<u>ENDING</u>	
Commissioners:			
Mr. Thomas "Buddy" Pixley, Chairman	Jan. 2003	Dec. 2007	None
Mayor Huey Dean	Jan. 2003	Dec. 2006	None
Mr. C. C. Austin (Mayor's Designee)	Jan. 2003	Dec. 2006	None
Mr. Mike Hays	Jan. 2001	Dec. 2005	None
Mrs. Charles Etta Johnson	Jan. 2003	Dec. 2007	None
Mrs. Dottie Palmer, Secretary	Jan. 2001	Dec. 2005	None
Dr. Cliff Salmon	Medical Staff Representative		None
Mr. George Tigner	Jan. 2002	Dec. 2006	None
Mr. Lawson Wilder	Jan. 2002	Dec. 2006	None
Mrs. Gussie Young, Vice-Chairman	Jan. 2001	Dec. 2005	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 COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 basic financial statements of Homer Memorial Hospital (the Hospital) as of and for the years ended June 30, 2005, 2004 and 2003, and have issued our report thereon dated August 19, 2005. 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

Compliance

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

Internal Control Over Financial Reporting

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

Board of Commissioners
Homer Memorial Hospital
Page Two

This report is intended for the information of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana. 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
August 19, 2005

HOMER MEMORIAL HOSPITAL
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2005, 2004, AND 2003

June 30, 2005
Debt Covenant

Finding: Audited financial statement delivery to the lender did not occur within 120 days of fiscal year end per bond covenants.

Recommendation: In order to meet lender's 120 day loan covenant deadline, all client information would need to be submitted to external auditors within 90 days of fiscal year end.

Management's Response: Due to the age of the loan and the turn over of Administrative staff, management was not aware of the requirement of delivery of financial statements within 120 days of fiscal year end. This bond was issued in 1988 and the timeliness of delivery of audited financials has not been an issue in the past. Management is taking the steps necessary to ensure all information is completed and forwarded to the external auditors within 90 days of fiscal year end.

June 30, 2004
Accounts Receivable

Finding: Medicaid home health claims for the twelve month audit period were not processed for payment before the cost report submission deadline.

Recommendation: Accounts receivable for the Hospital should be more proactively monitored in order to expedite payments due. Management should review collection status on a monthly basis. Responsibilities should be communicated to each member of the collections staff and aging reports for their area of accountability should be reviewed with them.

Management's Response: The Medicaid home health claims have been properly filed and payment is in process.

Resolution: This matter has been resolved.

Inventory

Finding: A significant adjustment was necessary to accurately report inventory according to the physical count at year end. Supply costs were overstated on interim financial statements and did not properly match revenue with expenses during the year. It is essential for the financial position of the Hospital to be accurately portrayed on a monthly basis.

Recommendation: We suggest that management review the inventory allocation model for Hospital supply accounting. We suggest a review of inventory balances each month to ensure that unrealistic inventory account balances are detected before year end.

Management's Response: Management has implemented procedures to review monthly inventory account balances to ensure accurate reporting on an interim basis.

Resolution: This matter has been resolved.

HOMER MEMORIAL HOSPITAL
MANAGEMENT RECOMMENDATIONS
YEARS ENDED JUNE 30, 2005, 2004, AND 2003

June 30, 2003
Accounts Payable

Finding: A large amount of expenses are not being accrued, especially expenses relating to services such as professional fees.

Recommendation: For large service expenses such as professional fees and legal and accounting fees, review the invoices for service dates rendered so that the accruals will be made in the proper periods.

Management's Response: Management has implemented procedures to review monthly invoices and vendor accounts, to ensure accurate monthly accruals of expenses

Resolution: This matter has been resolved