HOMER MEMORIAL HOSPITAL

Homer, Louisiana

REPORT OF EXAMINATION

For the Years Ended June 30, 2000 and 1999

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 01-10-01

PARRISH • MOODY & FIKES, p.c.
Certified Public Accountants
Waco, Texas

HOMER MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2000 AND 1999

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the accompanying balance sheet of Homer Memorial Hospital (the *"Hospital"*), a component unit of the Town of Homer as of June 30, 2000, and the related statements of operations and changes in fund balance, and cash flows for the year then ended. 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 audit.

The financial statements of Homer Memorial Hospital as of June 30, 1999, were audited by another auditor whose report dated September 22, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimated made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Homer Memorial Hospital as of June 30, 2000, and the results of its operations and changes in fund balance, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2000, on our consideration of the Homer Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Parrish Moody & Fikes, pc

Waco, Texas
September 19, 2000

HOMER MEMORIAL HOSPITAL

BALANCE SHEETS

JUNE 30, 2000 AND 1999

Assets	2000	1999
Current assets		
Cash and cash equivalents	$ 690,555	$ 146,206
Assets limited as to use for current liabilities	115,978	112,239
Accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of $2,670,093 and $1,704,232 in 2000 and 1999, respectively.	3,751,722	3,304,273
Educational contracts receivable, current portion	198,284	228,158
Inventories	395,129	397,692
Prepaid expenses	72,898	75,024
Due from health insurance stop/loss carrier	101,525	27,032
Total current assets	5,326,091	4,290,624
Assets whose use is limited:		
By bond indenture agreement	313,636	441,382
By board:		
For capital improvements	29,069	27,835
For self-funded insurance	12,931	15,115
For education purposes	94	11,024
For contingencies	860,561	1,427,246
Less: amount required to meet current obligations	(115,978)	(112,239)
Net assets whose use is limited	1,100,313	1,810,363
Property and equipment		
Net of accumulated depreciation and amortization of $6,825,062 and $6,420,659 in 2000 and 1999, respectively.	3,365,248	3,823,548
Total property and equipment	3,365,248	3,823,548
Other assets		
Educational contracts receivable, net of current portion	285,699	296,338
Receivable from physicians	201,468	171,468
Rental property, less accumulated depreciation of $30,618 and $23,972 in 2000 and 1999, respectively.	52,462	58,219
Health services start-up costs	28,038	56,078
Total other assets	567,667	582,103
TOTAL ASSETS	$ 10,359,319	$ 10,506,638

Liabilities and Fund Balance	2000	1999
Current liabilities		
Accounts payable	$ 172,187	$ 107,214
Accrued payroll liabilities	259,509	273,614
Accrued compensated absences	104,594	135,686
Due to health insurance programs	240,652	258,537
Current portion of long-term debt	138,793	139,291
Total current liabilities	915,735	914,342
Long-term debt, net of current portion		
Capital lease obligations	116,823	158,990
Hospital revenue bonds payable	2,989,459	3,083,478
Less: current portion of long-term debt	(138,793)	(139,291)
Total liabilities	2,967,489	3,103,177
Fund Balance		
Unrestricted fund balance	6,476,095	6,489,119
TOTAL LIABILITIES AND FUND BALANCE	$ 10,359,319	$ 10,506,638

The accompanying notes are an integral part of these financial statements.

HOMER MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
Operating revenue		
Net patient service revenue	$ 11,933,243	$ 10,078,078
Other operating revenue	76,625	72,133
Total operating revenue	12,009,868	10,150,211
Expenses		
Operating expenses	10,328,874	10,343,484
Bad debt expense	1,053,071	315,052
Depreciation and amortization expense	504,238	523,552
Interest expense	229,387	197,761
Total expenses	12,115,570	11,379,849
Loss from operations	(105,702)	(1,229,638)
Other income		
Ad valorem tax revenue	442	388,752
Investment income	92,236	154,685
Excess of expenses over revenues	(13,024)	(686,201)
UNRESTRICTED FUND BALANCE, BEGINNING OF YEAR	6,489,119	7,175,320
UNRESTRICTED FUND BALANCE, END OF YEAR	$ 6,476,095	$ 6,489,119

The accompanying notes are an integral part of these financial statements.

HOMER MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
Cash flows from operating activities		
Cash received on patient's accounts	$ 10,414,838	$ 9,464,688
Cash received from sale of meals, vending, etc.	76,625	72,133
Interest received	76,245	143,523
Interest paid	(229,387)	(197,761)
Cash paid in operating expenses	(10,350,862)	(10,569,101)
Loss on disposal of equipment	1,884	-
Net cash provided by (used in) operating activities	(10,657)	(1,086,518)
Cash flows from non-capital financing activities		
Taxes received	442	388,752
Cash flows from capital financing activities		
Principal payments on long-term debt	(136,186)	(156,679)
Cash flows from investing activities		
Educational contracts advances, net of cancellations & payments	56,504	(13,832)
Advances to physician	(30,000)	-
Decrease (increase) in assets whose use is limited	706,311	1,406,384
Purchases of property and equipment	(42,065)	(754,498)
Net cash provided by (used in) investing activities	690,750	638,054
Net increase (decrease) in cash and cash equivalents	544,349	(216,391)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	146,206	362,597
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 690,555	$ 146,206

The accompanying notes are an integral part of these financial statements.

HOMER MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS
(Continued)
FOR THE YEARS ENDED
JUNE 30, 2000 AND 1999

	2000	1999
Reconciliation of changes in fund balance to net cash provided by operating activities		
Cash flows from operating activities		
Loss from operations	$ (105,702)	$(1,229,638)
Adjustments:		
Depreciation expense	504,238	523,552
Amortization of start-up costs	28,040	28,039
Provision for bad debts	1,053,071	315,052
Interest received	76,245	143,523
Loss on asset disposition	1,884	-
Decrease (increase) in operating assets		
Gross patient receivables	(1,500,520)	(1,338,122)
Inventories	2,563	(38,688)
Prepaid expenses	2,126	18,608
Due from health insurance stop/loss carrier	(74,493)	(27,032)
Due from health insurance programs	-	466,195
Increase (decrease) in operating liabilities		
Accounts payable	64,973	16,504
Accrued payroll and benefits	(14,105)	(140,438)
Accrued compensated absences	(31,092)	(82,610)
Due to health insurance programs	(17,885)	258,537
Total adjustments	95,045	143,120
Net cash provided by (used in) operating activities	$ (10,657)	$(1,086,518)

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Homer Memorial Hospital is an enterprise fund of the Town of Homer, Louisiana. The Hospital is an acute care facility, which is controlled by a board of directors, who are a separate and distinct body from the Selectmen of the Town of Homer. The board members consist of citizens appointed by the Mayor and Selectmen of the Town of Homer. The board members serve without compensation.

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.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient Receivables

Receivables are stated at the full value of all charges incurred by the patient. Allowances have been provided for the estimated accounts uncollectible and for third-party contractual adjustments at year end. Receivables are written off as the accounts as determined to be uncollectible.

Inventories

Inventories represent dietary and medical supplies on hand and are valued at the latest invoice price, which approximates the lower of cost (first-in, first-out method) or market.

Prepaid Expenses

Prepaid expenses are amortized on a straight-line basis over the term of the respective items.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Assets Whose Use is Limited

Assets whose use is limited represents cash which has either been designated by the Board of Directors or which is required to be maintained separately due to bond indenture, or grant requirements. Board-designated assets may, at the board's discretion, be subsequently used for other purposes. Amounts required to meet current liabilities of the hospital have been reclassified in the balance sheet at June 30, 2000, and 1999.

Property and Equipment

The Hospital capitalizes depreciable property and equipment valued at $500 or more, with a useful life greater than two years. Property and equipment is recorded at cost, if purchased, or fair market value, if donated, and depreciation is computed using the straight-line method. Estimated useful lives range from 5 to 33 years on buildings and fixed equipment and 3 to 20 years on moveable equipment.

Property Tax Revenues

Advalorem tax revenues consist of tax proceeds received by the Hospital from Claiborne Parish Hospital District No. 2, which was created in 1989, by the Police Jury and approved by the Parish voters on September 15, 1989, to levy a $10 million tax on property for ten years. Due to the fact that the District is a separate entity controlled by a separate board of directors, the Hospital cannot levy the property tax. Accordingly, taxes receivable are not reflected in the accompanying financial statements. The ten-year tax expired in 1999.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all cash that is not limited as to use and investments with original maturities of three months or less are treated as cash and cash equivalents.

Pledged Assets

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

Income Taxes

The Hospital is a political subdivision under the laws of the State of Texas, and therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 6033(a)2 it is not required to file an information return form 990.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Presentation

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

2. HEALTH INSURANCE PROGRAM REIMBURSEMENT

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. For the years ended June 30, 2000, and 1999, 72% and 69% respectively, of the Hospital's patient revenues were generated by services furnished to Medicare and Medicaid program beneficiaries. A summary of the payment arrangements follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on cost reimbursement methodology.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Medicare fiscal intermediary has settled the Hospital's Medicare cost reports through June 30, 1998.

Effective August 1, 2000, the Medicare program will reimburse the Hospital at prospectively determined rates for outpatient services. Home health services are scheduled to be reimbursed at prospectively determined rates beginning October 1, 2000. The financial impact of these reimbursement changes is unknown at this time.

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates, which are paid on a per diem basis. Costs incurred on services rendered to Medicaid inpatients, which exceed the prospectively determined payment rates, are not recoverable from the Medicaid program or its beneficiaries. Outpatient services are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate during the fiscal year. The fiscal intermediary may adjust these rates during the fiscal year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Medicaid fiscal intermediary has settled the Hospital's Medicaid cost reports through June 30, 1997.

3. NET PATIENT SERVICE REVENUE

The following is a summary of net patient service revenue for the years ended June 30, 2000, and 1999:

	2000	1999
Inpatient charges	$ 13,955,405	$ 9,983,653
Outpatient charges	4,239,865	4,357,494
Total patient charges	18,195,270	14,341,147
Medicare and Medicaid contractual adjustments	(5,822,953)	(4,087,251)
Medicaid disproportionate payments	341,041	361,973
Charity care charges forgone	(38,514)	(29,341)
Administrative, PPO, and other adjustments	(741,601)	(508,450)
Net patient service revenue	$ 11,933,243	$ 10,078,078

4. CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its charity care guidelines established by the Hospital. These guidelines determine eligibility based on income, residency, resources, and household composition. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges written off for services and supplies furnished under its charity care policy.

The following information measures the level of charity care provided during the years ended June 30, 2000 and 1999:

	2000	1999
Charges forgone based on established rates	$ 38,514	$ 29,341
Estimated costs and expenses incurred to provide charity care	$ 23,500	$ 23,000

5. EDUCATIONAL CONTRACTS RECEIVABLE

The Hospital provides educational assistance to selected medical students and certain employees who contractually agree to return to the Hospital's service area after graduation. Under the terms of these contracts, the Hospital advances funds to assist the students in their educational costs. Employees agree to repay the loan through extended years of service at the Hospital. Medical students repay the loan by practicing in the Hospital service area for a period of years.

5. EDUCATIONAL CONTRACTS RECEIVABLE *(Continued)*

The loans, including interest, become immediately due and payable to the Hospital if the employee or medical student does not provide services for the Hospital for the full period of time within the contract. These loans are classified as current assets in the financial statements. The following is a summary of the net educational contracts receivable at June 30, 2000 and 1999:

	2000	1999
Balance, beginning of year	$ 524,496	$ 499,501
Educational advances	23,042	28,287
Assessment of interest on balances due	15,990	19,878
Changes in allowance for doubtful collections	-	7,561
Cancellation and repayments of contracts	(54,987)	(22,016)
Payments of interest due	(24,558)	(8,715)
Balance, end of year	$ 483,983	$ 524,496

6. LEASE OBLIGATIONS

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

Year Ending June 30,	Minimum Payments
2001	$ 44,160
2002	44,160
2003	44,160
2004	-
Total capital lease payments	132,480
Less amount representing interest	(15,657)
	116,823
Current maturities	(35,746)
Long-term maturities	$ 81,077

6. LEASE OBLIGATIONS *(Continued)*

Operating Leases – The Hospital leases various facilities within the area in providing home health and inpatient geriatric services. The terms of these leases range from monthly to several months in the future. During 2000 and 1999, lease expense under these arrangements was approximately $81,600 and $220,000 respectively, with the monthly lease obligation at June 30, 2000, being $6,800.

The Hospital has also entered into an operating lease for lab equipment with a monthly lease amount of approximately $266. During 2000, the Hospital paid $3,197 toward this commitment. This commitment expires in early 2004.

Future annual minimum lease payments on the operating leases having terms beyond one month are as follows:

Year Ending June 30,		Payments
2001	$	12,175
2002		3,197
2003		3,197
2004		533
2005		-

7. HOSPITAL REVENUE BONDS

Hospital Revenue Bonds were issued in the original amount of $3,800,000 to the Town of Homer, Louisiana dated June 15, 1988. The bonds were issued for the purpose of constructing and acquiring hospital extensions, additions and improvements, equipment, and furnishings. The bonds mature on June 15 of each year through 2018. Interest on the bonds accrues at 6.125%, and becomes due annually on June 15 of each year. The bonds are secured by a first lien on the Hospital's land, buildings, and equipment.

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 $283,290.

Contingency fund requirements – the Hospital is required to make monthly deposits of $1,194.

7. HOSPITAL REVENUE BONDS *(Continued)*

Actual and required balances of the reserve fund and contingency fund at June 30, 1999, follows:

	Actual	Required	Excess
Reserve fund	$ 294,278	$ 278,572	$ 15,706
Contingency Fund	19,358	140,892	(121,534)
Total	$ 313,636	$ 419,464	$ (105,828)

The reserve fund reached the maximum required balance; therefore, monthly deposits were discontinued. During fiscal year 2000, the Hospital used money from the contingency fund for operations. As of June 30, 2000, the contingency fund is short of the required balance by $121,534.

Farmers Home Administration permits the Hospital to pay on the principal and interest monthly in lieu of an annual payment. The monthly payments are applied to reduce the principal debt when paid. Assuming the continuation of monthly payments, future principal and interest requirements on the bonded debt for the next five fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2001	$ 103,047	$ 180,243	$ 283,290
2002	109,538	173,752	283,290
2003	116,439	166,851	283,290
2004	123,775	159,515	283,290
2005	131,572	151,718	283,290

8. 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 year ended June 30, 2000, was approximately $4,030,000; the Hospital's total payroll was approximately $5,238,000.

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

8. PENSION PLAN *(Continued)*

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

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B, with thirty years of service at age fifty-five; twenty years of service at age sixty; fifteen years of service at age sixty-two; or ten years of service at age sixty-five, may elect to participate in the deferred retirement option plan (DROP) for up to two years and defer the receipt of benefits. Upon commencement of participation in the DROP plan, membership in the System terminates. During participation in the plan, employer contributions are payable but employee contributions cease. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance are paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases are payable to participants until employment which made them eligible to become members of the System has been terminated for a least one full year.

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

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

Each participating employer of Plan A contributes an amount equal to 6.75% of each and every member's earnings. Each employee in Plan A contributes 9.25% of monthly earnings. Under Plan B, each participating employer contributes an amount equal to 3.75% of each and every member's earnings. Each employee in Plan B contributes 5.00% of monthly earnings.

8. PENSION PLAN *(Continued)*

The System also receives ¼ 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 year ended June 30, 2000, was approximately $601,000, which consisted of $232,000 from the Hospital and $369,000 from the employees.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted to the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employees. The System does not make separate measurement of assets and pension benefits obligation for individual employers. The pension benefit obligation at June 30, 1999, (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 $568 million. The System's net assets available for benefits on that date (valued at cost) was approximately $532 million, with an unfunded pension benefit obligation of $71 million. The Hospital's contribution for the year ended June 30, 1999, represented approximately 3% of total contributions paid by all participating entities. Five-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. No securities of the Hospital are held by the System.

9. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit — The Hospital operates in Homer, Louisiana, and grants credit on its services to its patients, substantially all of whom are local residents of the Parish. Generally, the Hospital accepts assignments of patients' benefits payable under either public or private insurance programs or policies in lieu of collateral to secure its patient accounts receivable. At June 30, 2000 and 1999, approximately 33% and 41%, respectively, of patient accounts receivable was related to beneficiaries of the Medicare and Medicaid Programs. Future changes (if any) occurring within the local economy or the Medicare and Medicaid reimbursement methods can significantly affect the operations of the Hospital.

9. COMMITMENTS AND CONTINGENCIES *(Continued)*

Cash Balances — At June 30, 2000, the aggregate carrying amount of cash, including assets whose use is limited, was $1,906,846 that was invested in three banks and the Louisiana Asset Management Pool. The corresponding bank and pool balances totaled $1,976,881. The difference between the carrying amount reported by the Hospital and the bank and pool balances represents deposits and checks, which had not cleared the bank at June 30, 2000. All funds are fully secured by either FDIC coverage or securities pledged against the deposits, except for $196,785 in excess of FDIC coverage and security pledges at First Woodlands Bank.

Volume of Services — The Hospital is dependent upon local physicians practicing in the immediate service area for its volume of patients. Any decrease in the number of physicians from the current level can significantly affect Hospital operations.

Litigation — The Hospital is the defendant in certain litigation arising in the normal course of its business. In the opinion of management and the Hospital's legal counsel, the claims are without merit and the awards for damages (if any) resulting from these claims will not exceed the applicable insurance coverage. Therefore, the Hospital has made no provision in the financial statements for a loss contingency related to these suits.

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

To the Board of Directors
Homer Memorial Hospital
Homer, Louisiana

We have audited the financial statements of Homer Memorial Hospital, a component unit of the Town of Homer, as of and for the year ended June 30, 2000, and have issued our report thereon dated September 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Homer Memorial Hospital's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contract and grants, non-compliance with which could have a direct and material effect on the determination of financial statements 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 instances of non-compliance that are required to be reported under *Government Auditing Standards*, which are described in the following paragraphs:

The Hospital has received a compliance report from the Louisiana State Legislative Auditor dated December 1, 1999, indicating various findings based upon compliance with various laws and statutes. These compliance issues were concerned with the Hospital's medical scholarship program and property tax monies received. The Hospital responded to these findings and effectively eliminated the majority of these compliance issues by eliminating the medical scholarship program, turning the delinquent accounts over to the Hospital's attorney for collection, and reaching settlements for possible ethics violations by the local physicians. Also, since the Hospital no longer receives tax monies, no compliance issues concerning property taxes would exist in this area at the present time.

Issue:
A remaining area of non-compliance with state laws is the remaining education contract balance related to Dr. John Haynes.

Transaction Details:
The Hospital entered into a scholarship contract with John Haynes, from July 1991 to June 1998, with advances to him totaling $ 72,500. At the completion of his medical training, John Haynes was employed in Shreveport and agreed to come see patients every Tuesday morning for a 50% forgiveness of his debt.

Noncompliance Details:
It is the Legislative Auditor's opinion, that the 50% forgiveness of this obligation is not the proper pro-rata amount to be forgiven, which is a violation of R.S. 46:1108. The Legislative Auditor indicated that the amount of time John Haynes will be working for the Hospital only constitutes forgiveness of 10% of his obligation.

Hospital's Response:
The Hospital has agreed to cancel the settlement agreement with Dr. John Haynes. The Hospital attorney has been authorized to pursue a new agreement.

Issue:
A remaining area of non-compliance is in the matter of Dr. Maria Haynes continuing to receive education payments after she had already finished her medical training.

Transaction Details:
Maria Haynes finished her medical training on July 31, 1998, but received an additional $ 20,000 in educational contract payments subsequent to that date. The Hospital has discontinued payments to Maria Haynes upon being informed about non-compliance.

Non-compliance Details:
It is the Legislative Auditor's opinion, that not only should payments to Maria Haynes have been ceased, but she should also be required to repay the additional $ 20,000 in a timely manner.

Hospital's Response:
Dr. Maria Haynes no longer receives payments from Homer Memorial Hospital. She began her practice in the community on July 1, 2000, in accordance with her agreement with the Hospital. The board will appoint a committee to address the additional $20,000.

Issue:
A remaining area of non-compliance is that several nursing and medical education contract beneficiaries have violated the work provisions of their contract. Accordingly, they owe the Hospital all sums advanced to them. The Legislative Auditor questioned the Hospital's collection procedures, and subsequently the Hospital for the most part has pursued aggressive collection measures through the Hospital attorney. However, in certain cases, the Legislative Auditor's collection recommendations have not been followed.

Transaction Details:
In the case of nursing students Ginni Hollenshead and Frederick Young, and in the case of medical student Thomas Trawick, collection schedules have been set up for periods exceeding four years. Also, in the case of nursing students Laurie Johnson, Michael Turner, and April Freeman, there is no evidence of collection efforts.

Non-Compliance Details:
According to the requirements of R.S. 46:1138, repayments are to be made in four years. In the case of three of the above students, the repayment schedules exceed the repayment timeline recommended by the Legislative Auditor. No apparent collection effort has been made on the amounts due from the other four students. Therefore, a violation of the statutory requirement on these contracts has not yet been addressed.

Hospital's Response:
The Hospital will immediately authorize its attorney to pursue more aggressive collection efforts to comply with R.S.46:1138.

Issue:
It came to our attention that a possible violation existed as to unearned compensation being paid to the former administrator.

Transaction Details:
The former administrator, J. Larry Jordan, retired in April 2000. As he gave the Board notice of this retirement in early 1999 and as a new administrator was placed in December, 1999, the Hospital's Board voted to place Mr. Jordan on administrative leave with pay, effective January 1, 2000 until his already scheduled retirement date.

Non-Compliance Details:
During the period from January 1, 2000 through April 11, 2000, Mr. Jordan was paid $18,268 in unearned compensation which violates Article VII, Section 14 of the Louisiana Constitution of 1974.

Hospital's Response:
The Hospital board will adopt a written policy against unearned compensation to any party.

Issue:
As part of the Hospital's bond indenture, a minimum balance is required to be deposited into a contingency fund. At June 30, 2000, this minimum balance was not maintained.

Transaction Details:
As part of the bond indenture with FMHA, the Hospital is required to maintain a contingency fund with a required balance of $ 140,892 as of June 30, 2000. During the year ended June 30, 2000, funds were drawn out of this contingency fund resulting in an ending balance at June 30, 2000 of $19,358.

Non-Compliance Details:
The contingency fund had a balance $121,534 less than the balance required by the bond indenture as of June 30, 2000.

Hospital's Response:
The contingency fund has been replenished to its required level.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homer Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Homer Memorial Hospital in a separate letter dated September 19, 2000.

This report is intended for the information of the board of directors, management, and the Legislative Auditor's Office of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Waco, Texas
September 19, 2000

HOMER MEMORIAL HOSPITAL

Homer, Louisiana

REPORT ON INTERNAL CONTROL AND COMMUNICATIONS WITH THE BOARD OF DIRECTORS

For the Year Ended June 30, 2000

PARRISH • MOODY & FIKES, p.c.
Certified Public Accountants
Waco, Texas

HOMER MEMORIAL HOSPITAL

REPORT ON INTERNAL CONTROL AND COMMUNICATIONS WITH THE BOARD OF DIRECTORS

JUNE 30, 2000

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Section A

PARRISH • MOODY & FIKES, p.c.
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OFFICES IN
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DALLAS & LONGVIEW, TEXAS

Board of Directors
Homer Memorial Hospital
Homer, Louisiana

In planning and performing our audit of the financial statements of Homer Memorial Hospital (the *"Hospital")* for the year ended June 30, 2000, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, would adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These are summarized following this letter along with our comments regarding other matters pertaining to the audit.

A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

This report is intended solely for the information and internal use of the Board, management, and others within the organization.

Parrish Moody & Fikes, pc

Waco, Texas
September 19, 2000

We would like to emphasize the nature and scope of this letter and our financial audit. As discussed in the report on the preceding page, it is not designed to provide assurance on the operation of your accounting system. It is designed to share things that we encounter in the course of the audit with you and to provide comments based on our experience with your institution and other similar entities.

- *An operational audit is concerned with operational efficiency, i.e., what is the best way to process transactions to achieve desired results. It is often concerned with adequate staffing, etc. An operational audit is often designed to help evaluate the sufficiency of information for making management decisions.*

- *A financial audit is focused on measurement and testing. It is not really concerned with operational efficiency other than that captured in your overall bottom line. It is possible to perform a financial audit with a good deal less information than may be necessary to evaluate the departmental performance of your Hospital or to make strategic decisions about your course of business.*

REPORTABLE CONDITIONS

ACCOUNTS PAYABLE

Comments:
As part of our standard audit procedures, we review the detail aging of vendors for accounts payable and search for unrecorded liabilities. In our analysis it was determined that the Hospital properly recorded, but did not properly post it's accounts payable.

Recommendations:
We recommend that all invoices be entered as they are approved for processing on a daily or weekly basis. Invoices should be processed in the period to which they apply.

Hospital's Response:
Personnel changes have been made in the accounting department. Employees have been properly instructed with regard to the proper procedure for posting accounts payable. Therefore, the Hospital feels that the problem has been resolved and should not occur again.

DEPOSIT RISK

Comments:
At June 30, 2000, we noted that $196,785 of the Hospital's funds on deposit at First Woodland's Bank were not secured by either FDIC coverage or bank pledged securities.

Recommendations:
The Hospital should determine there are bank-owned securities pledged against deposited funds at all times. Furthermore, the Hospital should bring this deposit risk to the attention of Woodlands Bank to insure that adequate funds are pledged in the future.

Hospital's Response:
The executive secretary to the administrator will verify that all funds are secured on a monthly basis.

UNRECONCILED ACCOUNTS

Comments:
No June 30, 2000 reconciliation was prepared for the Payroll cash account and the Claims cash account. On further inspection, it was noted that these accounts were not being reconciled on a monthly basis throughout the year.

Recommendation:
Proper account procedures require cash accounts to be reconciled on a periodic basis, in this case monthly. The Hospital should reconcile these accounts along with their other cash accounts before closing on a monthly basis.

Hospital's Response:
Personnel changes have been made in the accounting department. Employees have been instructed to reconcile these accounts on a monthly basis. The Hospital feels that this should not be a problem in the future.

INTERNAL CONTROL

Comments:
During the course of performing the audit, it was discovered that internal control over keys was not maintained adequately. Keys to the accountant's office were discovered freely available. On further research, it was noted that no master key list was maintained and records authorizing distribution of keys were not available.

Recommendation:
The Hospital should appoint an individual to control distribution and collection of its keys. This person should keep a master list of all keys, keys checked out, and a signed and dated list of to whom they are checked out.

Hospital's Response:
Locks to the accountant's office have been changed. Keys have been distributed to the administrator, the executive secretary, and to the accountant.

SUMMARY OF PRIOR YEAR FINDINGS

We have reviewed the Hospital's responses to items noted in the previous year's management letter concerning: (1) payroll accounting, (2) deposit risk, (3) fixed asset capitalization policy, (4) cost report revenue and expense reclassifications, (5) physician line of credit and other debt, and (6) Louisiana code of government ethics. Based on our review, we believe the Hospital has responded appropriately to these findings except as previously noted with regard to deposit risk.

Section B

HOMER MEMORIAL HOSPITAL

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

In April 1988, the AICPA Auditing Standards Board issued a group of Statements on Auditing Standards commonly referred to as the *"Expectation Gap"* Auditing Statements. The following section provides required communications with the Board under these statements:

Statement on Auditing Standards	***Response for the 2000 Audit***
SAS No. 53, *"The Auditor's Responsibility to Detect and Report Errors and Irregularities"*	• We are not aware of any errors or irregularities that have not been communicated to the Board.
SAS No. 54, *"Illegal Acts by Clients"*	• Any instances of these acts are disclosed in the supplements section of our audit report.
SAS No. 60, *"Communication of Internal Control Structure Related Matters Noted in an Audit"*	• We are not aware of any material internal control matters which would require communication to the Board other than as included with this report.
SAS No. 61, *"Communication with Audit Committees"*	
The auditor's responsibility	• Our audit is designed to enable us to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
Significant accounting policies	• The Board has been informed of significant accounting policies included in the notes to the financial statements.
Management judgments and accounting estimates	• Management judgment is required in estimating the allowances for contractual adjustments and estimated uncollectible accounts.

(Continued)

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Statement on Auditing Standards	***Response for the 2000 Audit***
SAS No. 61, *"Communication with Audit Committees"* (Continued)	
Significant audit adjustments:	(1) Entry necessary to adjust group insurance payable (decrease fund balance $331,117). (2) Entries necessary to estimate net effect of cost report settlements (decrease fund balance $184,055). (3) Entry necessary to record accounts payable (decrease fund balance $175,953). (4) Entry necessary to adjust estimated bad debt expenses (decrease fund balance $401,565).
Other information in documents containing audited financial statements.	• None
Disagreements with management.	• None
Consultations with other accountants.	• None
Major issues discussed with management prior to retention or reappointment.	• None