HOMER MEMORIAL HOSPITAL AND AFFILIATE

HOMER, LOUISIANA

JUNE 30, 2014, 2013, AND 2012

HOMER MEMORIAL HOSPITAL AND AFFILIATE
TOWN OF HOMER, STATE OF LOUISIANA
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of Homer Memorial Hospital and Affiliate's (Hospital's) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2014, 2013, and 2012. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by $2,207,000 or approximately 16% during fiscal year 2014. This decrease is primarily from a decreased cash position due to a $1,772,000 operating loss. A grant of $147,000 was received to provide adequate and essential medically necessary healthcare services to low income or indigent patients. The Hospital's total assets decreased by $1,037,000 or approximately 7% during fiscal year 2013. This decrease is primarily from a decreased cash position due to a $1,057,000 operating loss. A grant of $167,000 was received to provide adequate and essential medically necessary healthcare services to low income or indigent patients.

- Net patient revenues decreased by $3,450,000 or approximately 20% compared to a decrease of $205,000 or 1% in fiscal year 2013. This is a significant decrease and represents both a decrease in patient volume and in net revenue realized on gross patient charges due to a change in payor mix.

- Total operating expenses decreased $1,637,000 or 9%, compared to net patient revenues with a 20% decrease of $3,450,000, compared to an increase in total operating expenses of $651,000 (4%) in fiscal year 2013.

- The Hospital received $-0-, $-0-, $0 and $221,000 in disproportionate share payments during fiscal years 2014, 2013, 2012, and 2011. Disproportionate share amounts are computed cost calculations using the most recently filed cost report. Recoveries of excess payments may occur once the final cost calculations for the year in which payments are paid is complete. Following preparation of the cost report for the fiscal year ended June 30, 2011, projected overpayments in the amounts of $221,000 were recorded. For 2011 the actual funds received of ($221,000) less expected recovery of ($221,000) nets to $-0- accrual basis revenue. The federal definition of UCC changed effective July 1, 2010, which reduced income in fiscal year 2011 and for future years. This change shifted a significant percentage of Medicaid payments from the retroactive disproportionate system to the concurrent claims payment system without actually increasing or decreasing total reimbursement from Medicaid.

Required Financial Statements

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

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in it. Increases or decreases in the Hospital's net position 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.

Given the continuing decline in the financial performance of the hospital and the uncertain future impact of the Affordable Care Act, Management has initiated specific short term cost reduction measures while implementation efforts outlined in a recently completed Strategic Plan are proceeding. Governance of the hospital has been transferred to Claiborne Parish based on a resolution which requires the parish to seek local tax support for the hospital. The vote on the tax will take place in March, 2015. In addition the hospital has now successfully applied for a $500,000 revenue bond to fund the relocation of the senior care unit.

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Financial Analysis of the Hospital (Continued)

TABLE 1
Condensed Balance Sheets (In thousands)

	June 30, 2014	2013	2012	2011
Total current assets	$ 3,799	$ 5,348	$ 6,726	$ 6,453
Limited use assets (non current)	1,487	1,987	2,026	2,454
Property, plant and equipment	6,568	6,716	6,321	5,119
Unamortized bond issue cost	26	36	51	65
Total assets	$ 11,880	$ 14,087	$ 15,124	$ 14,091
Total current liabilities	$ 3,286	$ 3,185	$ 2,951	$ 2,943
Long-term debt, net of current	664	1,181	1,395	1,431
Total liabilities	3,950	4,366	4,346	4,374
Net position:				
Invested in capital assets, net of related debt	5,305	4,956	4,545	3,306
Temporarily restricted	540	600	576	1,037
Unrestricted	2,085	4,165	5,657	5,374
Total liabilities and net position	$ 11,880	$ 14,087	$ 15,124	$ 14,091

As can be seen in Table 1, total assets decreased by $2,207,000 to $11,880,000 in fiscal year 2014 compared to total assets of $14,087,000 in fiscal year 2013. Bonds were issued in the amount of $500,000 in fiscal year 2013 for an equipment purchase.

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Financial Analysis of the Hospital (Continued)

TABLE 2
Capital Investments (Rounded to nearest thousand)

	2014 Cost
Equipment	
EDIS project costs transferred from CIP	$ 553,661
Meaningful use project costs transferred from CIP	217,797
Medical carts transferred from CIP	88,759
Other equipment	7,745
Total equipment	867,962
Construction in Progress	
Cafeteria renovation costs	132,000
Meaningful use project costs	151,000
Other renovation project costs	238,000
Total construction in progress	521,000
Total major acquisitions	$ 1,388,962

Sources of Revenue

Operating Revenue

During fiscal years 2014, 2013, and 2012, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and 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. During fiscal years 2014 and 2013, the Hospital was audited by the Medicare Recovery Audit Contractor (RAC). The recoupment in FY 2014 of prior and current year reimbursement amounts was $240,000. Medicare and Medicaid RAC audits will continue to impact future reimbursement.

Sources of Revenue (Continued)

Operating Revenue (Continued)

In FY 2014, Medicare and Medicaid paid the Hospital a total of $1,379,000 as an incentive for implementing electronic health records. In FY 2012, Medicare paid the Hospital $1,291,000 as an incentive for implementing electronic health records. In FY 2011, Medicaid paid the Hospital $737,000 as an incentive for implementing electronic health records.

During fiscal year 2014 the Hospital received $147,000 grant revenue to be used solely to provide adequate and essential medically necessary health care services to the citizens of the community who are low income and/or indigent. Other revenue includes interest income, cafeteria sales, and other miscellaneous services.

Table 3 represents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2014, 2013, and 2012. Payor mix percentages are computed based on gross charges by payor compared to total gross patient charges.

TABLE 3
Payor Mix by Percentage of Gross Charges

	Year ended June 30		
	2014	2013	2012
Medicare	58.2%	58.8%	56.3%
Medicaid	17.3%	17.7%	19.5%
Commercial	13.8%	16.5%	15.2%
Self-pay and other	10.8%	7.0%	9.0%
Total patient revenue	100.0%	100.0%	100.0%

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 $13,000, $38,000, $43,000 and $34,000 in 2014, 2013, 2012, and 2011, respectively. In January 2009 all investment accounts were switched to a Money Market account with a guaranteed rate of at least 1.00%. Alternatives were reviewed in order to obtain a better rate but accounts with higher interest rates require that the funds be restricted and were not accessible without penalties.

Capital Grants and Contributions

Various small grants were received to purchase equipment. The Claiborne Healthcare Foundation, an affiliate, received contributions of $34,000, $43,000, $221,000 and $148,000 during fiscal years 2014, 2013, 2012 and 2011, respectively that are restricted towards future capital expenditures. The Foundation contributed $673,000 to the Hospital for the Intensive Care Unit (ICU) project, which was completed in FY 2013.

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, 2014, 2013, 2012, and 2011.

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

	Years Ended June 30, 2014	2013	2012	2011
Net patient service revenue	$ 13,599	$ 17,050	$ 17,255	$ 18,631
Noncapital grants	1,541	177	1,483	752
Other revenue	237	502	268	238
Total operating revenues	15,377	17,729	19,006	19,621
Salaries	6,873	7,868	7,762	7,661
Benefits and payroll taxes	1,286	1,418	1,431	1,477
Supplies and drugs	2,769	3,147	3,510	4,111
Professional fees	3,101	3,221	2,862	2,685
Other expenses	2,009	2,135	1,620	1,211
Insurance	303	282	251	246
Depreciation and amortization	809	716	700	925
Total operating expenses	17,150	18,787	18,136	18,316
Operating income (loss)	(1,773)	(1,058)	870	1,305
Investment income	13	38	43	34
Interest expense	(79)	(95)	(88)	(90)
Gain (loss) on disposal of assets	-	1	-0-	-0-
Revenues in excess of expenses	(1,839)	(1,114)	825	1,249
Capital grants and contributions	48	56	236	120
Increase (decrease) in net assets	(1,791)	(1,058)	1,061	1,369
Net position - beginning of year	9,721	10,779	9,718	8,349
Net position - end of year	$ 7,930	$ 9,721	$ 10,779	$ 9,718

Accounts Receivable

Total accounts receivable has decreased significantly over the past year primarily due to a decrease in patient volume in the current year. The business office manager and Medicare billing clerk are working on getting the business office operating more efficiently, and as a result, management expects accounts receivable to continue to decrease. The Hospital continues to carry accounts on which payment arrangements have been made, therefore, the total balance stays in active accounts receivable longer. However, due to the significant write-offs, there is a decrease in balances 90 days and over.

TABLE 5
Gross Accounts Receivable Aging (In thousands)

	Year ended June 30		
	2014	**2013**	**2012**
Current accounts	$ 2,849	$ 3,270	$ 3,533
30-day accounts	559	838	960
60-day accounts	453	421	832
90-day and over accounts	1,742	2,291	3,865
Total	$ 5,603	$ 6,820	$ 9,190

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2014 and 2013:

- Patient days, not including Senior Care days, decreased to 6,421, decreased to 8,799, and decreased to 10,559, for FY 2014, 2013 and 2012, respectively. This is a decrease of 27%, compared to a decrease of 16% and a decrease of 8%, in overall activity for the past three years.

- Salaries had a slight decrease in FY 2014 after a slight increase in FY 2013. Administration and nursing services are the two areas that saw the largest decreases in 2014. Employee benefits decreased by $132,000 overall in fiscal year 2013. In fiscal year 2013 there was a decrease of $14,000 and a decrease of $45,000 in fiscal year 2012.

- Investment income was at $13,000, $38,000 and $43,000 for fiscal years 2014, 2013 and 2012, respectively, primarily due to the ability to transfer money to savings and increase the balances in the accounts held at First Guaranty Bank. Rates have remained low throughout the fiscal year and are being re-evaluated quarterly to make sure the highest return is being earned.

- Professional fees decreased by $124,000, primarily due to housekeeping services being paid as employees for a portion of FY 2014, offset by an increase in contract services and consultants for administration and business office services. Fiscal year 2013 had an increase of $294,000 or 10% which was an increase from the 2012 increase of $177,000 or 6%.

- **Operating and Financial Performance (Continued)**

- In April, 2013, Homer Memorial Hospital signed an Agreement for Hospital Administrative Services with Quorum Health Resources, LLC to provide management services to the hospital.

- In 2012, Homer Memorial Hospital was successful in obtaining a physician to provide coverage of the ER for one of the vacated Nurse Practitioner positions; but, the Hospital still relies on contracted services to complete coverage. The Hospital began an Outpatient Wound Care clinic as a new service to the community by using a contract service in 2012.

- Supply and drug cost decreased by $378,000 compared to a decrease of $360,000 in fiscal year 2013, primarily due to the decrease in patient volume.

- In fiscal year 2014 the Medicare Recovery Audit Contractor (RAC) requested over $613,000 in claims for review. Of this amount, the RAC recovered approximately $241,000 in reimbursement. There could be additional recoveries in the future. In February 2010, the Hospital received the first request from the RAC for medical records to be reviewed for proper coding and documentation. RAC is a private company hired by Medicare to identify and correct past Medicare improper payments, whether overpayments or underpayments. These audits will continue but the Hospital has implemented an internal audit and review process within the facility to identify possible coding errors prior to RAC review on issues that have been identified for review.

Contacting the Hospital's Financial Management

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

AUDITED FINANCIAL STATEMENTS

HEARD, MCELROY, & VESTAL
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January 13, 2015

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying combined financial statements of Homer Memorial Hospital and its affiliate (the Hospital), a component unit of the Town of Homer, Louisiana, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Homer Memorial Hospital and Affiliate as of June 30, 2012, were audited by other auditors whose report dated November 19, 2012, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages i through viii be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's combined basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The accompanying supplementary information for the year ended June 30, 2012 was included in an audit report of other auditors as previously mentioned.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30,

	2014	2013	2012
ASSETS			
Current:			
Cash and cash equivalents (Notes 2 & 3)	$ 298,850	$ 343,334	$ 1,420,618
Short-term investments (Note 3)	459,164	1,711,381	1,933,560
Receivables, net (Note 4)	2,035,508	2,193,462	2,245,485
Assets limited as to use - current (Note 5)	289,322	289,133	308,680
Inventories	509,830	570,992	594,505
Prepaid expenses	205,633	235,247	219,152
Other current assets (Note 6)	214	4,755	4,076
Total current assets	3,798,521	5,348,304	6,726,076
Other:			
Assets limited as to use - non current (Note 5)	1,486,846	1,986,350	2,026,211
Capital assets, net (Note 7)	6,568,467	6,716,029	6,321,146
Unamortized bond issue cost	25,530	36,017	50,870
Total assets	$ 11,879,364	$ 14,086,700	$ 15,124,303
LIABILITIES AND NET POSITION			
Current:			
Accounts payable	$ 865,112	$ 591,017	$ 529,730
Accrued expenses	622,035	720,335	745,352
Estimated third-party payor settlements	1,294,000	1,294,000	1,294,000
Current maturities of long-term debt (Note 8)	505,118	579,575	473,267
Total current liabilities	3,286,265	3,184,927	3,042,349
Long-term debt, net of current maturities (Note 8)	663,008	1,180,247	1,303,361
Total liabilities	3,949,273	4,365,174	4,345,710
Net Position:			
Invested in capital assets, net of related debt	5,400,341	4,956,207	4,544,518
Temporarily restricted (Note 5)	539,821	600,300	575,649
Unrestricted	1,989,929	4,165,019	5,658,426
Total net position	7,930,091	9,721,526	10,778,593
Total liabilities and net position	$ 11,879,364	$ 14,086,700	$ 15,124,303

See accompanying notes to financial statements.

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

	2014	2013	2012
Operating Revenues:			
Net patient service revenue (Note 10)	$ 13,599,044	$ 17,049,995	$ 17,255,287
Noncapital grants (Note 15)	1,540,683	177,315	1,483,277
Other operating revenue	237,253	503,247	267,928
Total operating revenues	15,376,980	17,730,557	19,006,492
Operating Expenses:			
Salaries	6,873,035	7,868,285	7,761,979
Benefits and payroll taxes	1,285,897	1,417,770	1,431,369
Supplies and drugs	2,768,593	3,146,886	3,510,251
Professional fees	3,100,521	3,221,361	2,861,818
Other expenses	2,009,008	2,135,500	1,619,584
Insurance	303,352	282,279	251,534
Depreciation and amortization	809,326	715,575	699,018
Total operating expenses	17,149,732	18,787,656	18,135,553
Operating income (loss)	(1,772,752)	(1,057,099)	870,939
Nonoperating revenues (expenses)			
Investment income	12,979	37,503	42,905
Interest expense	(79,170)	(94,700)	(87,930)
Gain (loss) on disposal of assets	-0-	1,075	-0-
Excess of revenues (expenses) before capital grants and contributions	(1,838,943)	(1,113,221)	825,914
Capital grants and contributions	47,508	56,154	235,706
Increase (decrease) in net position	(1,791,435)	(1,057,067)	1,061,620
Net position at beginning of year	9,721,526	10,778,593	9,716,973
Net position at end of year	$ 7,930,091	$ 9,721,526	$ 10,778,593

See accompanying notes to financial statements.

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

	2014	2013	2012
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	$ 13,756,998	$ 17,102,018	$ 18,114,377
Other receipts and payments, net	1,782,477	679,883	1,754,205
Payments to suppliers and contractors	(7,816,603)	(8,652,357)	(8,294,024)
Payments for employees and benefits	(8,257,231)	(9,376,036)	(9,148,907)
Net cash provided (used) by operating activities	(534,359)	(246,492)	2,425,651
Cash flows from investing activities:			
Interest on investments	12,979	37,503	42,905
Change in assets whose use is limited	499,315	59,408	440,919
Change in investments	1,252,217	222,179	(1,416,714)
Net cash provided (used) by investing activities	1,764,511	319,090	(932,890)
Cash flows from capital and related financing activities:			
Capital grants and contributions	47,508	56,154	235,706
Interest paid on long-term debt	(79,171)	(94,700)	(87,930)
Proceeds from issuance of long-term debt	-0-	500,000	400,000
Amortization of bond issue costs	10,487	14,853	14,853
Principal payments on long-term debt	(591,696)	(516,806)	(436,544)
Proceeds from disposal of assets	-0-	1,090	-0-
Purchase of capital assets	(661,764)	(1,110,473)	(1,901,295)
Net cash provided (used) by capital and related financing activities:	(1,274,636)	(1,149,882)	(1,775,210)
Net increase (decrease) in cash and cash equivalents	(44,484)	(1,077,284)	(282,449)
Beginning cash and cash equivalents	343,334	1,420,618	1,703,067
Ending cash and cash equivalents	$ 298,850	$ 343,334	$ 1,420,618
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest (net of interest capitalized)	$ 79,171	$ 92,659	$ 87,930

See accompanying notes to financial statements.

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

	2014	2013	2012
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ (1,772,752)	$ (1,057,099)	$ 870,939
Adjustments to reconcile operating income (loss) to net cash flows provided (used) in operating activities:			
Depreciation and amortization	809,326	715,575	699,018
(Increase) decrease in:			
Patient accounts receivable, net	157,954	52,023	859,090
Other assets	95,318	6,739	(10,997)
Increase (decrease) in:			
Accounts payable and accrued expenses	175,795	36,270	7,601
Estimated third-party payor settlements	-0-	-0-	-0-
Net cash provided (used) by operating activities	$ (534,359)	$ (246,492)	$ 2,425,651

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

Homer Memorial Hospital (the "Hospital") operates as an enterprise fund of the Town of Homer, Louisiana. The Hospital is controlled by a board of directors, who are a separate and distinct body from the Selectmen of the Town of Homer. The board members consist of citizens appointed by the Mayor and Selectmen of the Town of Homer. The board members serve without compensation.

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

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

Nature of Business

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

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

Principles of Combination

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

Income Taxes

Homer Memorial Hospital is a political subdivision and exempt from taxation. The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

The Foundation adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its positions regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Foundation is no longer subject to federal, state, or local tax examinations by tax authorities for years before June 30, 2011.

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.

Assets Limited as to Use

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

Inventory

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

Capital Assets

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

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

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

Unamortized Bond Costs

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The net position of the Hospital is classified in four components. Net position invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets. Restricted expendable net position is non capital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Restricted nonexpendable net position equals the principal portion of permanent endowments. The Hospital has no restricted nonexpendable net position at this time. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

The content and certain titles of the financial statements were changed upon the adoption by the Hospital in the year ended June 30, 2013 of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides reporting guidance for deferred outflows of resources and deferred inflows of resources, and adds them, when applicable, as elements of the financial statements, because they are distinct from assets and liabilities. In addition, because these additional elements may affect the residual amount of all of the elements presented in a statement of financial position, GASB 63 renames that measure as net position rather than net assets. The town had no deferred outflows or inflows of resources at June 30, 2014, and no reclassifications affecting the statement of net assets from the prior period were required.

Restricted Resources

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

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, not including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue

The Hospital has agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Credit Risk

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

Significant Concentration of Economic Dependence

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

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters; except for workers compensation, general, and professional liability claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years. See Note 14 for discussion of workers compensation liability risk and professional and general liability risk.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Reclassifications

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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. Currently all amounts shown as investments are interest-bearing deposits. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the banks' records.

Account balances according to banks' records at June 30, 2014, for the Hospital are as follows:

	First Guaranty	Bancorp South	Citizens National
Cash and CD's	$ 2,003,285	$ 20,292	$ 425,940
Insured by FDIC	$ 250,000	$ 250,000	$ 250,000
Collateralization at fair market value	$ 1,753,285	$ -0-	$ 175,940
Uncollateralized	$ -0-	$ -0-	$ -0-

Account balances according to banks' records at June 30, 2014, for the Foundation are as follows:

	First Guaranty	Gibsland Bank
Cash in banks	$ 26,681	$ 202,647
Insured by FDIC	$ 250,000	$ 250,000
Collateralization at fair market value	$ -0-	$ -0-
Uncollateralized	$ -0-	$ -0-

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. Homer Memorial Hospital's deposits were entirely insured or collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2014, 2013, and 2012. The Affiliate's (Foundation) deposits were entirely insured or collateralized by securities held by the pledging bank's trust department in the Affiliate's name at June 30, 2014, 2013 and 2012.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

	2014	2013	2012
Carrying amount			
Deposits	$ 298,850	$ 343,334	$ 1,420,618
Investments	2,235,332	3,986,864	4,268,451
Totals	$ 2,534,182	$ 4,330,198	$ 5,689,069
Included in the following balance sheet captions			
Cash and cash equivalents	$ 298,850	$ 343,334	$ 1,420,618
Short-term investments	459,164	1,711,381	1,933,560
Assets limited as to use - current	289,322	289,133	308,680
Assets limited as to use - noncurrent	1,486,846	1,986,350	2,026,211
Totals	$ 2,534,182	$ 4,330,198	$ 5,689,069

NOTE 4 - RECEIVABLES, NET

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

	2014	2013	2012
Accounts receivable			
Patient accounts receivable	$ 4,129,603	$ 4,145,390	$ 5,934,046
Estimated uncollectibles	(2,164,605)	(1,857,148)	(3,559,000)
Net patient accounts receivable	1,964,998	2,288,242	2,375,046
Third-party cost based settlements	70,510	(94,780)	(129,561)
Receivables, net	$ 2,035,508	$ 2,193,462	$ 2,245,485

NOTE 4 - RECEIVABLES, NET (Continued)

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

	2014	2013	2012
Medicare	32%	42%	29%
Medicaid	12%	14%	18%
Other third-party payors	12%	10%	6%
Others	44%	34%	47%
Total	100%	100%	100%

NOTE 5 - ASSETS LIMITED AS TO USE

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

	2014	2013	2012
Restricted by third parties			
Capital improvement	$ 250,657	$ 311,325	$ 267,127
Self-funded insurance fund	289,164	288,975	308,522
Total restricted by third parties	539,821	600,300	575,649
Internally designated by board			
Education fund	158	158	158
Long-term investment fund	1,072,145	1,317,439	1,304,911
Investment fund	164,044	357,586	454,173
Total internally designated by board	1,236,347	1,675,183	1,759,242
Total assets limited as to use	1,776,168	2,275,483	2,334,891
Less: Current portion	289,322	289,133	308,680
Non current assets limited as to use	$ 1,486,846	$ 1,986,350	$ 2,026,211

NOTE 6 - OTHER CURRENT ASSETS

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

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

	2014	2013	2012
Balance, beginning of year	$ 4,638	$ 4,076	$ 7,076
Advances on education loans	-0-	562	1,254
Assessment of interest on balances due	-0-	-0-	124
Changes in allowance for doubtful collections	-0-	-0-	728
Cancellation and repayments of contracts	(4,638)	-0-	(2,106)
Principal and interest paid	-0-	-0-	(3,000)
Balance, end of year	$ -	$ 4,638	$ 4,076

Included in Other Current Assets at June 30, 2014, is $214 miscellaneous receivable.

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2013	Additions	Deductions	June 30, 2014
Land and improvements	$ 384,827	$ -0-	$ -0-	$ 384,827
Buildings and improvements	11,479,178	-0-	-0-	11,479,178
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	7,977,202	867,962	-0-	8,845,164
Construction in progress	727,425	676,188	882,386	521,227
Total	20,589,252	1,544,150	882,386	21,251,016
Accumulated depreciation	(13,873,223)	(809,326)	-0-	(14,682,549)
Net	$ 6,716,029	$ 734,824	$ 882,386	$ 6,568,467

NOTE 7 - CAPITAL ASSETS (Continued)

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2012	Additions	Deductions	June 30, 2013
Land and improvements	$ 369,546	$ 15,281	$ -0-	$ 384,827
Buildings and improvements	9,978,304	1,500,874	-0-	11,479,178
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	7,576,896	402,020	1,714	7,977,202
Construction in progress	1,535,127	1,058,411	1,866,113	727,425
Total	19,480,493	2,976,586	1,867,827	20,589,252
Accumulated depreciation	(13,159,347)	(715,575)	(1,699)	(13,873,223)
Net	$ 6,321,146	$ 2,261,011	$ 1,866,128	$ 6,716,029

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2011	Additions	Deductions	June 30, 2012
Land and improvements	$ 369,546	$ -0-	$ -0-	$ 369,546
Buildings and improvements	9,920,858	57,446	-0-	9,978,304
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	7,080,515	511,751	15,370	7,576,896
Construction in progress	203,029	1,841,686	509,588	1,535,127
Total	17,594,568	2,410,883	524,958	19,480,493
Accumulated depreciation	(12,475,699)	(699,018)	(15,370)	(13,159,347)
Net	$ 5,118,869	$ 1,711,865	$ 509,588	$ 6,321,146

NOTE 8 - LONG-TERM DEBT

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

	June 30, 2013	Additions	Payments	June 30, 2014	Due Within One Year
2007 Series bonds payable	$ 741,843	$ -0-	$ 235,853	$ 505,990	$ 247,089
Capital lease payable	37,917	-0-	37,917	-0-	-0-
2009 Series bonds payable	115,911	-0-	92,258	23,653	23,653
2010 Series bonds payable	120,978	-0-	52,410	68,568	54,575
2011 Series A bonds payable	281,811	-0-	78,367	203,444	81,780
2011 Series B bonds payable	461,362	-0-	94,891	366,471	98,021
Total	$ 1,759,822	$ -0-	$ 591,696	$ 1,168,126	$ 505,118

	June 30, 2012	Additions	Payments	June 30, 2013	Due Within One Year
2007 Series bonds payable	$ 967,006	$ -0-	$ 225,163	$ 741,843	$ 235,851
Capital lease payable	76,915	-0-	38,998	37,917	37,917
2009 Series bonds payable	204,473	-0-	88,562	115,911	84,424
2010 Series bonds payable	171,293	-0-	50,315	120,978	47,957
2011 Series A bonds payable	356,941	-0-	75,130	281,811	78,535
2011 Series B bonds payable	-0-	500,000	38,638	461,362	94,891
Total	$ 1,776,628	$ 500,000	$ 516,806	$ 1,759,822	$ 579,575

	June 30, 2011	Additions	Payments	June 30, 2012	Due Within One Year
2007 Series bonds payable	$ 1,181,997	$ -0-	$ 214,991	$ 967,006	$ 225,502
Capital lease payable	111,088	-0-	34,173	76,915	38,997
2009 Series bonds payable	296,514	-0-	92,041	204,473	81,069
2010 Series bonds payable	223,573	-0-	52,280	171,293	52,280
2011 Series A bonds payable	-0-	400,000	43,059	356,941	75,419
Total	$ 1,813,172	$ 400,000	$ 436,544	$ 1,776,628	$ 473,267

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2014, 2013 and 2012, follow:

- 5.0% 2007 Hospital revenue bonds, principal and interest payable in monthly payments of $22,127, collateralized by a pledge of the Hospital's land, buildings, and equipment. Bonds mature on June 15, 2016.
- Capital lease obligation with imputed interest rate of 5%, collateralized by equipment with a cost of $134,091 and book value of $59,064 at June 30, 2014. Principal and interest of 48 monthly payments of $3,246 began July, 2010. This obligation was paid in full during the year ended June 30, 2014.
- 4.0% 2009 Hospital revenue bonds, principal and interest payable in monthly payments of $7,939, collateralized by a pledge of Hospital operating revenue. Bonds matured on October 15, 2014.

NOTE 8 - LONG-TERM DEBT (Continued)

- 4.0% 2010 Hospital revenue bonds, principal and interest payable in monthly payments of $4,696, collateralized by a pledge of Hospital operating revenue. Bonds mature on October 15, 2015.
- 4.0% 2011A Hospital revenue bonds, principal and interest payable in monthly payments of $7,377, collateralized by a pledge of Hospital operating revenue. Bonds mature on November 16, 2016.
- 3.25% 2011B Hospital revenue bonds, principal and interest payable in monthly payments of $9,040, collateralized by a pledge of Hospital operating revenue. Bonds mature on February 15, 2018.

Under the terms of the 2007, 2009 and 2010 revenue bonds, the Hospital is required to satisfy certain measures of financial performance as long as the bonds are outstanding. The 2007, 2009 and 2010 revenue bonds also place limits on the incurrence of additional borrowings. The Hospital did not meet the 120 day reporting requirement for the years ended June 30, 2013, 2012 and 2011; however, the Hospital received a waiver from the lender for each year.

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

	Long-Term Debt		Capital Lease Obligations	
Year Ending June 30,	Principal	Interest	Principal	Interest
2015	$ 505,118	$ 39,976	$ -0-	$ -0-
2016	459,300	18,178	-0-	-0-
2017	141,108	4,257	-0-	-0-
2018	62,600	680	-0-	-0-
2019	-0-	-0-	-0-	-0-
Total	$ 1,168,126	$ 63,091	$ -	$ -

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. Current operating leases are on a short-term renewal basis.

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. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010, until September 30, 2013, if not extended by Congress. The additional payment received under the Medicare low volume add-on was approximately $281,000, $560,000 and $648,000 for the years ended June 30, 2014, 2013, and 2012, respectively. This add-on is based on federal fiscal years that end September 30, so the Hospital will receive this add-on during three fiscal years. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until December 31, 2012. The hold harmless payments were -$0-, -$0-, and $255,000, for the years ended June 30, 2014, 2013, and 2012, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon prospective methodology adjusted for diagnosis and length of stay.

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. In fiscal year 2013, a Medicaid supplemental physician payment of $54,527 was received. 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.

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

The Hospital's previous reimbursements are also subject to secondary review by Medicare and Medicaid representatives. These representatives 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.

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors.

NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	2014	2013	2012
Gross patient service charges	$ 37,283,606	$ 41,384,791	$ 43,602,995
Medicaid uncompensated care, net of recoveries	-0-	-0-	-0-
Medicare and Medicaid contractual adjustments	(16,774,995)	(16,701,754)	(18,332,468)
Other third-party payor contractual adjustments	(3,720,010)	(4,848,360)	(4,613,383)
Provision for bad debts	(2,739,312)	(2,259,937)	(3,266,366)
Charity care	(450,245)	(524,745)	(135,491)
Net patient service revenue	$ 13,599,044	$ 17,049,995	$ 17,255,287

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	2014	2013	2012
Medicare and Medicaid gross patient charges	$ 28,372,125	$ 31,437,034	$ 32,666,052
Contractual adjustments	(16,774,995)	(16,701,754)	(18,332,468)
Program patient service revenue without Medicaid UCC	$ 11,597,130	$ 14,735,280	$ 14,333,584
% of total gross patient charges from Medicare and Medicaid	76%	76%	75%
% of total net patient revenue from Medicare and Medicaid	85%	86%	83%

The Hospital previously received interim payments for Medicaid and self-pay uncompensated care services (UCC). The interim payments received were based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The federal definition of UCC changed effective July 1, 2010, which reduced income in 2011 and for future years. The Hospital has made provisions for recoupment of $221,000 for fiscal year 2011. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature. In 2012, the Hospital began participation in a grant program with other hospitals (see Note 15) which supplements payments previously paid under UCC.

NOTE 11 - CHARITY CARE

The Hospital provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% of charity care or owe a reduced "sliding scale" amount based on the patient's level of income in comparison to the Federal Poverty Guidelines based on a 200% scale. Accordingly, the Hospital does not report the amounts it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies, and other operating expenses. The costs of caring for charity care patients were approximately $245,622, $273,798, and $66,085, for the years ended June 30, 2014, 2013, and 2012, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately $147,646, $167,240 and $183,293, for the years ended June 30, 2014, 2013, and 2012, respectively.

NOTE 12 - COMPENSATED ABSENCES

As of June 30, 2014, 2013, and 2012, the Hospital has accrued a compensated absence liability of $239,959, $249,353, and $227,455, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 13 - PENSION PLAN

Until December 31, 2006 all full-time Hospital employees participated in the Municipal Employees' Retirement System, State of Louisiana ("System"), a multiple employer public employee retirement system. The payroll for Hospital employees covered by the System for the years ended June 30, 2014, 2013, and 2012, was approximately $48,000, $57,000 and $62,000, respectively; the Hospital's total payroll was approximately $6,873,000, $7,868,000, and $7,762,000 for the years ended June 30, 2014, 2013, and 2012, respectively.

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

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

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

NOTE 13 - PENSION PLAN (Continued)

During participation in the DROP plan, employer contributions were payable but employee contributions ceased. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance were paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases were payable to participants until employment which made them eligible to become members in the System had been terminated for at least one full year. Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan could receive, at his option, a lump sum from the account equal to the payment into the account, a true annuity based upon his actual balance in that fund, or any other method of payment if approved by the board of trustees. The monthly benefits that were being paid into the deferred retirement option plan fund would begin to be paid to the retiree. If a participant died during the participation in the plan, a lump sum equal to his account balance in the plan fund was paid to his named beneficiary or, if none, to his estate. If employment was not terminated at the end of the two years, payments into the plan fund cease and the person resumes active contributing membership in the System. Additional accrued benefits were based on final average compensation used to calculate the member's original benefit unless the additional period of service was at least thirty-six months.

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

Each participating employer of Plan A contributed an amount equal to 17% of each and every member's earnings through June 30, 2013. Each employee in Plan A contributed 9.25% of monthly earnings. Under Plan B, each participating employer contributed an amount equal to 8.00% of each and every member's earnings. Each employee in Plan B contributed 5.00% of monthly earnings.

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

Tax monies are apportioned between Plan A and Plan B in proportion to the salaries of plan participants. These additional sources of income are used as additional employer contributions. The remaining employer contributions were determined according to actuarial requirements and were set annually. The contribution requirement for the years ended June 30, 2014, 2013, and 2012, was approximately $18,000, $14,000 and, $14,000, respectively, which consisted of $12,000, $9,000 and $9,000, respectively, from the Hospital and $6,000, $5,000 and $5,000, respectively, from the employees during 2014, 2013, and 2012.

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, 2013, (the latest actuarial report furnished to the Hospital), for the System as a whole, determined through an actuarial valuation

NOTE 13 - PENSION PLAN (Continued)

performed as of that date (valued at market) was approximately $950 million. The System's net assets available for benefits on that date (valued at market) were approximately $872 million, with an unfunded pension benefit obligation of $78 million. The Hospital's contributions for the years ended June 30, 2014, 2013, and 2012, represented approximately .03%, .03%, and .03% of total contributions paid by all participating entities, respectively. A report of five-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. No securities of the Hospital are held by the System.

The Hospital withdrew from the Municipal Employees' Retirement System effective December 31, 2006. One employee remains in the system at June 30, 2014.

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

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

Acuff and Associates is the third party administrator of the 457(b) and the 401(a) plans. The Board of Commissioners adopted these plans and may change the terms of the plans to improve administration and can, at their discretion, increase or decrease the contribution percentages.

Following is a schedule that summarizes information regarding the defined contribution retirement plans in effect for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	2012
Total payroll	$ 6,873,000	$ 7,868,000	$ 7,762,000
Total covered payroll	6,825,000	7,811,000	7,700,000
Employee contributions	154,000	158,000	192,000
Employer contributions	111,000	110,000	144,000

NOTE 14 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital. The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

The Hospital included provision of $26,500, $18,000, and $42,000 at June 30, 2014, 2013, and 2012, respectively, for professional liability losses and legal defense costs not covered by the Louisiana Patient's Compensation Fund. The Hospital is contingently liable for losses and related defense costs from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

The Hospital included no provision at June 30, 2014, 2013, and 2012 for uninsured general liability losses. The Hospital is contingently liable for losses and related defense costs from general liability.

NOTE 14 - CONTINGENCIES (Continued)

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

	Professional/General Liability		
	2014	2013	2012
Balance, beginning of year	$ 18,000	$ 42,000	$ 28,000
Claim payments	(7,600)	(72,000)	(4,600)
Change in estimate	(10,400)	33,000	4,600
Incurred claims	26,500	15,000	14,000
Balance, end of year	$ 26,500	$ 18,000	$ 42,000

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 $-0-, $35,000, and $35,000 at June 30, 2014, 2013, and 2012 for uninsured workers' compensation losses and related defense costs. The Hospital is contingently liable for losses and related defense costs from workers' compensation.

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

	Workers' Compensation		
	2014	2013	2012
Balance, beginning of year	$ 35,000	$ 35,000	$ 35,000
Claim payments	(11,558)	(95,000)	(2,200)
Change in estimate	(23,442)	95,000	600
Incurred claims	-0-	-0-	1,600
Balance, end of year	$ -0-	$ 35,000	$ 35,000

NOTE 15 - GRANT REVENUE

The Hospital recognized operating grant income of approximately $1,379,404 and $1,291,289 from Medicare during the years ended June 30, 2014 and 2012, respectively, as an incentive for implementing electronic health records (EHR). The key component of receiving the EHR incentive payments is "demonstrating meaningful use", which is meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The Hospital has met Stage 1 and State 2 criteria. The Hospital's policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on

NOTE 15 – GRANT REVENUE – Continued

management's best estimate. The payments can be retained and additional payments can be earned for each stage if the Hospital meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

The Hospital received grants of $147,646, $167,240 and $183,293 in 2014, 2013 and 2012, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the Hospital, along with other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement.

Various other grants were received during the year for other uses.

NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of $33,844, $42,566, and $220,582 are included in capital grants and contributions for the years ended June 30, 2014, 2013, and 2012, respectively. Hospital support of operational expenses for the Foundation were $70,218, $121,350, and $103,831 during years ended June 30, 2014, 2013, and 2012, respectively.

Following is a summary of net position and results of operations of the Foundation as of June 30, 2014, 2013, and 2012.

	2014	2013	2012
ASSETS			
Limited use assets	$ 250,657	$ 311,325	$ 267,127
LIABILITIES			
Contribution Payable	17,191	-0-	-0-
NET POSITION	233,466	311,325	267,127
TOTAL LIABILITIES AND NET POSITION	$ 250,657	$ 311,325	$ 267,127

NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE) (Continued)

	2014	2013	2012
REVENUE			
Contributions from third parties	$ 33,844	$ 42,566	$ 220,582
Non-cash contributions from third parties	-0-	-0-	-0-
Non-cash contributions from Hospital	70,218	121,350	103,831
Interest & gain/loss on investments	1,308	1,632	3,751
Total Revenue	105,370	165,548	328,164
EXPENSES			
Grants to Homer Memorial Hospital	113,011	-0-	672,724
Other expense	-0-	-0-	-0-
Administrative expense	70,218	121,350	103,831
Total Expenses	183,229	121,350	776,555
Increase (decrease) in net position	$ (77,859)	$ 44,198	$ (448,391)

NOTE 17 - SUBSEQUENT EVENTS

Events have been evaluated through January 13, 2015, for subsequent event disclosure. This date is the date the financial statements were available to be issued. Subsequent to year-end, the Town of Homer entered into an intergovernmental agreement with the Claiborne Parish Police Jury for the management of the hospital to be transferred to the Claiborne Parish Hospital Service District Number 3 while the hospital assets remain owned by the Town of Homer. Governance of the hospital has been transferred based on a resolution which requires the parish to seek local tax support for the hospital. The vote on the tax will take place in March, 2015. In addition the hospital has now successfully applied for a $500,000 revenue bond to fund the relocation of the senior care unit.

Effective September 15, 2014, the board approved changing the name of the hospital to Claiborne Memorial Medical Center.

SUPPLEMENTARY FINANCIAL INFORMATION

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Routine services:			
Adult and pediatric	$ 3,908,844	$ 4,727,624	$ 5,241,340
Intensive care unit	1,016,457	1,128,129	967,522
Senior care	1,204,206	1,634,100	1,674,324
Nursery	-0-	-0-	48
Swing bed	374,832	154,250	227,750
Total routine services	6,504,339	7,644,103	8,110,984
Other professional services:			
Operating room			
Inpatient	130,099	224,530	187,902
Outpatient	528,632	541,961	414,757
Total	658,731	766,491	602,659
Anesthesia			
Inpatient	44,632	64,498	31,697
Outpatient	172,782	131,111	75,991
Total	217,414	195,609	107,688
Radiology			
Inpatient	1,181,881	1,680,938	1,833,382
Outpatient	3,753,359	3,677,189	4,271,006
Total	4,935,240	5,358,127	6,104,388
Laboratory			
Inpatient	2,024,842	2,777,085	2,940,871
Outpatient	2,616,302	2,699,841	2,489,489
Total	4,641,144	5,476,926	5,430,360
Blood			
Inpatient	326,030	526,890	564,159
Outpatient	181,051	181,588	181,130
Total	$ 507,081	$ 708,478	$ 745,289

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Respiratory therapy			
Inpatient	$ 2,091,821	$ 2,692,950	$ 2,881,824
Outpatient	345,234	324,394	306,891
Total	2,437,055	3,017,344	3,188,715
Physical therapy			
Inpatient	365,773	213,966	196,260
Outpatient	3,189	5,238	1,507
Total	368,962	219,204	197,767
Occupational therapy			
Inpatient	388,033	172,799	213,516
Outpatient	4,666	2,962	231
Total	392,699	175,761	213,747
Electrocardiology			
Outpatient	3,260	3,912	9,454
Total	3,260	3,912	9,454
Central supply			
Inpatient	630,179	949,421	1,066,871
Outpatient	522,151	435,678	423,644
Total	1,152,330	1,385,099	1,490,515
Pharmacy			
Inpatient	4,439,697	6,391,413	7,907,937
Outpatient	2,624,199	2,648,361	1,843,558
Total	7,063,896	9,039,774	9,751,495
Outpatient treatment area			
Outpatient	826,270	782,531	668,471
Total	$ 826,270	$ 782,531	$ 668,471

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Emergency room			
Inpatient	$ 628,985	$ 491,500	$ 837,511
Outpatient	5,884,638	5,278,108	5,342,914
Total	6,513,623	5,769,608	6,180,425
Neurology			
Inpatient	1,062	3,802	667
Outpatient	53,553	81,391	90,670
Total	54,615	85,193	91,337
Home health			
Skilled nursing visits	700,684	506,600	450,700
Physical therapy visits	149,645	63,200	80,700
Occupational therapy visits	83,022	89,000	100,500
Speech therapy visits	-0-	1,100	100
Social service visits	-0-	150	400
Aide visits	49,270	75,500	68,300
Medical supplies	24,326	21,081	9,001
Total	1,006,947	756,631	709,701
Other professional services			
Inpatient	12,253,034	16,189,792	18,662,597
Outpatient	17,519,286	16,794,265	16,119,713
Home health	1,006,947	756,631	709,701
Total other professional services	30,779,267	33,740,688	35,492,011
Gross patient service charges	37,283,606	41,384,791	43,602,995
Contractual adjustments	20,495,005	21,550,114	22,945,851
Provision for bad debts	2,739,312	2,259,937	3,266,366
Charity care	450,245	524,745	135,491
Uncompensated care reimbursement, net of recoveries	-0-	-0-	-0-
Total patient service allowances	23,684,562	24,334,796	26,347,708
Net patient service revenue	$ 13,599,044	$ 17,049,995	$ 17,255,287

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Cafeteria	$ 78,882	$ 124,168	$ 92,886
Medical records	4,285	2,019	11,410
Vending machines	9,399	12,637	13,439
Rentals	-0-	2,200	1,650
Pharmacy sales to employees	15,678	70,640	62,614
340B Pharmacy Program	-0-	144,261	-0-
Miscellaneous	129,009	147,322	85,929
Total other operating revenue	$ 237,253	$ 503,247	$ 267,928

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Salaries:			
Administrative and general	$ 942,678	$ 1,217,174	$ 1,153,095
Plant operations and maintenance	60,396	66,359	80,372
Quality	61,621	6,058	-0-
Housekeeping	85,630	-0-	-0-
Dietary and cafeteria	169,088	239,100	222,242
Nursing administration	70,591	60,420	69,736
Central supply	67,781	80,843	81,195
Pharmacy	49,998	58,574	67,466
Medical records	199,096	263,025	247,994
Nursing services	1,443,454	2,027,671	2,132,088
Intensive care unit	458,953	566,123	532,576
Senior care unit	442,398	498,091	489,372
Nursery	-0-	-0-	-0-
Operating room	233,739	232,337	196,398
Radiology	366,468	357,609	358,814
Laboratory	359,269	334,506	352,266
Respiratory therapy	262,997	379,702	401,740
Emergency room	1,207,987	1,013,081	972,519
Home health	292,543	348,125	337,803
Outpatient treatment area	98,348	119,487	66,303
Total salaries	$ 6,873,035	$ 7,868,285	$ 7,761,979
Benefits and payroll taxes:			
Payroll taxes	$ 560,764	$ 591,930	$ 579,513
Health insurance	611,509	710,736	714,452
Other benefits	113,624	115,104	137,404
Total benefits and payroll taxes	$ 1,285,897	$ 1,417,770	$ 1,431,369

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Administration	$ 433,629	$ 298,911	$ 416,466
Housekeeping	158,325	166,821	159,447
Maintenance	10,355	37,842	32,339
Dietary	272,934	350,819	338,267
Medical records	9,241	8,248	52,204
Adults and pediatrics	230,608	112,621	194,871
Intensive care unit	38,966	58,518	42,021
Nursery	-0-	-0-	-0-
Emergency room	62,102	89,404	106,204
Operating room	72,837	156,429	107,203
Anesthesiology	-0-	-0-	729
Radiology	48,150	49,811	252,140
Laboratory	233,486	301,348	343,173
Blood	191,712	241,189	246,070
Physical therapy	12	-0-	13
EKG	372	-0-	356
EEG	-0-	-0-	2,640
Central supply	20,710	1,867	3,803
Respiratory therapy	38,401	52,155	66,983
Pharmacy	917,587	1,170,974	1,066,444
Outpatient treatment area	10,368	19,055	21,840
Home health	11,155	15,669	32,158
Senior care	7,643	15,205	24,880
Total supplies and drugs	$ 2,768,593	$ 3,146,886	$ 3,510,251

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Adults and pediatrics	$ -0-	$ 145,200	$ 18,650
Operating room	81,505	90,945	75,495
Anesthesiology	200,000	240,000	240,000
Radiology	9,525	37,165	40,000
Laboratory	20,737	28,033	1,000
Respiratory therapy	13,246	14,087	18,080
Physical therapy	87,928	68,790	64,250
Occupational therapy	82,090	29,070	36,715
Pharmacy	384,034	385,235	404,904
Emergency room	665,588	706,463	634,137
Outpatient treatment area	212,335	277,701	225,392
Home health	109,670	126,643	149,488
Senior care	119,663	112,441	121,061
Dietary	20,452	19,332	22,877
Housekeeping	153,845	458,566	442,021
Medical records	54,201	98,854	109,184
Administration	885,702	382,836	258,564
Total professional fees	$ 3,100,521	$ 3,221,361	$ 2,861,818

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	2014	2013	2012
Management fees	$ 88,027	$ 75,348	$ 57,960
Legal and accounting	243,030	308,692	280,649
Repairs and maintenance	471,681	548,048	411,388
Utilities	316,819	311,111	294,190
Telephone	117,109	105,066	129,199
Travel	103,952	81,463	72,638
Rentals	350,586	298,361	111,077
License, inspection and membership fees	13,385	32,773	67,019
Education	14,936	37,070	49,761
Postage	25,387	40,589	31,771
Public relations	21,504	56,207	26,156
Education contracts	-0-	-0-	-0-
Miscellaneous	242,592	240,772	87,776
Total other expenses	$ 2,009,008	$ 2,135,500	$ 1,619,584

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF PER DIEM AND
OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

	----- TERM -----		Compensation
	BEGAN	ENDING	2014
Commissioners:			
Mr. Loy Weaver	Jan. 2012	Dec. 2016	None
Mr. Frederick Young	June 2010	Dec. 2015	None
Mayor Alecia L. Smith	June 2010	Dec. 2015	None
Dr. Nelson Philpot	Jan. 2011	Dec. 2015	None
Mr. Eddie Robinson	Jan. 2011	Dec. 2015	None
Ms. Niekitsha Ridley-Jenkins	Jan. 2013	Dec. 2017	None
Mr. Jack Hightower	Jan. 2013	Dec. 2017	None
Mr. George Tigner	Jan. 2008	Dec. 2012	None
Mrs. Charles Etta Johnson	Jan. 2003	Dec. 2012	None
Mr. Wesley Emerson	Jan. 2007	Dec. 2011	None
Mr. Mac Rushing	Jan. 2007	Dec. 2011	None
Dr. Sam Abshire	Medical Staff Representative		None
Dr. Scott Haynes	Medical Staff Representative		None

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2014

RISK COVERED		COVERAGE	PERIOD
Directors & Officers Liability		$1,000,000	11/1/13 - 11/1/14
Commercial Insurance Package	Damage to Covered Property	$33,841,181	8/17/13 - 8/17/14
	Time Element Loss	Included	8/17/13 - 8/17/14
	Perishable Stock	$10,000,000	8/17/13 - 8/17/14
	Hazardous Substances	$250,000	8/17/13 - 8/17/14
	Expediting Expense	Follows Property	8/17/13 - 8/17/14
	Data Restoration	$50,000	8/17/13 - 8/17/14
Physician & Surgeons Prof. Liability	LHA Physicians Trust Per Occurrence	$100,000	3/1/14 - 3/1/15
	LHA Physicians Trust Annual Aggregat	$300,000	3/1/14 - 3/1/15
	LA Patients Comp Fund	$400,000	3/1/14 - 3/1/15
Commercial Automobile	Each Accident	$1,000,000	8/17/13 - 8/17/14
Excess Coverage for Workers Comp	Aggregate Retention	$1,000,000	03/01/14 - 9/30/15
Crime Policy	Employee Theft	$300,000	11/1/12 - 11/1/15
	ERISA	$300,000	11/1/12 - 11/1/15
ER Physicians Liability	Each Medical Incident	$1,000,000	3/1/14 - 3/1/15
	Aggregate	$3,000,000	3/1/14 - 3/1/15
Senior Care General Liability	General Aggregate Limit	$1,000,000	4/1/14 - 4/1/15
	Products / Completed Operations	Included	4/1/14 - 4/1/15
	Personal & Advertising Injury Limit	$1,000,000	4/1/14 - 4/1/15
	Each Occurrence Limit	$1,000,000	4/1/14 - 4/1/15
	Damage to Premises Rented	$50,000	4/1/14 - 4/1/15
Patient's Compensation Fund		$125,000	3/1/14 - 3/1/15

OTHER REPORTS

HEARD, MCELROY, & VESTAL
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January 13, 2015

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the 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, the combined financial statements of Homer Memorial Hospital and its affiliate (the Hospital) as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, we consider the deficiencies described in the accompanying schedule of findings to be material weaknesses: 2014-03.

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We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2014-01, 2014-02 and 2014-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item: 2014-06.

The Hospital's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:
- Material weaknesses identified – Yes
- Significant deficiencies identified – Yes

Compliance:
- Noncompliance issues noted – Yes

Management letter issued – No
Federal Awards – Not applicable

Section II. Financial Statement Findings

2014-01 - Revenues

Finding: The postings of various revenue items were misclassified during fiscal year 2014. This led to cost report receivables and other accounts being over or understated on an interim basis as well as at year end. Change in accounting personnel and the failure to share and seek documentation among management and the accounting staff contributed to these misclassifications.

Recommendation: Original correspondence from Medicare and Medicaid should be maintained in respective files for ease in locating documentation. Copies should be timely provided to relevant staff (top management plus payment information to accounting, billing information to the billing supervisor, etc.) with the routing tree on the original document. Training of staff to question unlabeled or questionable receipts will aid in mitigating the risk of future misclassifications.

Response: Newly hired CFO will institute procedures to verify that management and staff receive requisite documentation in a timely manner. Original correspondence will be maintained in files that are easily accessed by relevant staff. Staff will be trained to question unidentified receipts.

Section II. Financial Statement Findings (Continued)

2014-02 - Home Health Accounts Receivable

Finding: Allowances for home health accounts receivables were understated thereby overstating net patient service revenue. The Hospital calculates home health allowances based on historical cash receipts and gross charges. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

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

Response: Management has developed a contractual allowance model that will more accurately calculate the contractual allowance for Home Health.

2014-03 - Financial Statements

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

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

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

Section II. Financial Statement Findings (Continued)

2014-04 - General Accounting

Finding: It was noted that certain detail schedules supporting balance sheet accounts had not been reconciled to the general ledger at year-end and that the depreciation schedule had not been maintained properly by hospital personnel. This required several adjusting entries to correct the general ledger balances.

Recommendation: Management should review with hospital personnel the proper procedures to insure that all detail information is reconciled to the general ledger on a monthly basis to insure proper financial reporting.

Response: Management is implementing review procedures to see that all detail information is reconciled prior to monthly financial statements being prepared.

2014-05 - Segregation of Duties

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

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

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

Section II. Financial Statement Findings (Continued)

2014-06 - Compliance

Finding: During fiscal year 2014, travel expenses for one board member were incurred beyond the stated time of the conference attended.. This is not in compliance with the Hospital's travel policy. The Hospital's travel policy limits expense reimbursement to approved conferences/seminars, etc. to be paid or reimbursed by the Hospital.

Recommendation: Stricter controls governing the reimbursement of Hospital related expenses should be instituted and followed. All persons traveling on Hospital business should be fully aware of State and Hospital rules governing allowable travel, as well as required documentation, prior to travel. Complete expense reimbursement requests with all related documentation attached, must be submitted for written approval by an appropriate level of authority. Incomplete and non-compliant expense reimbursement requests should be returned for correction, or questionable items removed, before approval or payment. Written policy should also be updated to include control governing the use of Hospital credit cards. Hospital personnel should never be required to perform personal services for other Hospital staff.

Response: In the future the Hospital will follow its policies, educate all relevant personnel and will not pay inappropriate expenses.

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable

Section II. Financial Statement Findings (Continued)

2013-01 - Revenues

Fiscal Year Initially Reported: June 30, 2012

Finding: The postings of various revenue items were misclassified during fiscal year 2013. This led to cost report receivables and other accounts being over or understated on an interim basis as well as at year end. Expansion of general ledger accounts, the failure to share and seek documentation among management and the accounting staff, and turnover in staff all contributed to these misclassifications.

Recommendation: Original correspondence from Medicare and Medicaid should be maintained in respective files for ease in locating documentation. Copies should be timely provided to relevant staff (top management plus payment information to accounting, billing information to the billing supervisor, etc.) with the routing tree on the original document. Training of staff to question unlabeled or questionable receipts will aid in mitigating the risk of future misclassifications.

Response: CFO will institute procedures to verify that management and staff receive requisite documentation in a timely manner. Original correspondence will be maintained in files that are easily accessed by relevant staff. Staff will be trained to question unidentified receipts.

Current status: Not resolved - See finding 2014-01.

Section II. Financial Statement Findings (Continued)

2013-02 - Home Health Accounts Receivable

Fiscal Year Initially Reported: June 30, 2009

Finding: Allowances for home health accounts receivables were understated thereby overstating net patient service revenue. The Hospital calculates home health allowances based on historical cash receipts and gross charges. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

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

Response: Management will develop a contractual allowance model that will more accurately calculate the contractual allowance for Home Health.

Current Status: Partially resolved - See finding 2014-02.

2013-03 - Financial Statements

Fiscal Year Initially Reported: June 30, 2007

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

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

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

Current status: Not resolved - See finding 2014-03.

Section II. Financial Statement Findings (Continued)

2013-04 - General Accounting

Fiscal Year Initially Reported: June 30, 2013

Finding: It was noted that several detail schedules supporting balance sheet accounts had not been reconciled to the general ledger at year-end and that the depreciation schedule had not been maintained properly by hospital personnel. This required several adjusting entries to correct the general ledger balances.

Current year payroll tax withholding requirements were not updated timely resulting in underwithholding of Social Security taxes from employees. The first two quarterly payroll tax returns for 2013 were not filed timely resulting in penalties assessed on delinquent filing.

Recommendation: Management should review with hospital personnel the proper procedures to insure that all detail information is reconciled to the general ledger on a monthly basis to insure proper financial reporting.

Hospital personnel should review payroll tax requirements prior to each calendar year to determine that all withholding and filing requirements are being met.

Response: Management is implementing review procedures to see that all detail information is reconciled prior to monthly financial statements being prepared.

Current status: Partially resolved - See finding 2014-04.

2013-05 - Segregation of Duties

Fiscal Year Initially Reported: June 30, 2007

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

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

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

Current status: Partially resolved - See finding 2014-05.

Section II. Financial Statement Findings (Continued)

2013-06 - Compliance

Fiscal Year Initially Reported: June 30, 2012

Finding: During fiscal year 2013, various travel expenses for persons accompanying board members were paid by the Hospital and not reimbursed. This is not in compliance with the Hospital's travel policy. The Hospital's travel policy limits expense reimbursement to approved conferences/seminars, etc. to be paid or reimbursed by the Hospital.

Recommendation: Stricter controls governing the reimbursement of Hospital related expenses should be instituted and followed. All persons traveling on Hospital business should be fully aware of State and Hospital rules governing allowable travel, as well as required documentation, prior to travel. Complete expense reimbursement requests with all related documentation attached, must be submitted for written approval by an appropriate level of authority. Incomplete and non-compliant expense reimbursement requests should be returned for correction, or questionable items removed, before approval or payment. Written policy should also be updated to include control governing the use of Hospital credit cards. Hospital personnel should never be required to perform personal services for other Hospital staff.

Response: In the future the Hospital will follow their policies, educate all relevant personnel and will not pay inappropriate expenses. The Hospital has notified the four conference attendees whose travel expenses were not compliant with the Hospital travel policy

Current Status: Partially resolved - See finding 2014-06.

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable