

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Patients	\$ 3,162,894	\$ 2,254,392	\$ 2,050,126
Medicare program	277,000	473,369	(398,953)
Medicaid program	215,846	161,860	206,749
Other	<u>106,701</u>	<u>84,129</u>	<u>83,317</u>
Total	3,762,441	2,973,750	1,941,239
Estimated allowances for uncollectibles	<u>(1,254,262)</u>	<u>(1,010,000)</u>	<u>(708,000)</u>
Net accounts receivable	<u>\$ 2,508,179</u>	<u>\$ 1,963,750</u>	<u>\$ 1,233,239</u>

Included in 1996 contractual adjustments is a \$201,396 cost report settlement adjustment. HCFA approved a rule during 1996 which exempts rural hospitals with under 60 beds from a target amount per discharge.

The District generates a substantial portion of its charges from the Medicare and Medicaid programs at discounted rates. A summary of gross Medicare and Medicaid charges for the years ended April 30, 1996, 1995 and 1994, follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Medicare patients	\$ 10,785,284	\$ 8,213,350	\$ 7,539,644
Medicaid patients	<u>2,120,038</u>	<u>2,228,073</u>	<u>2,155,316</u>
Total	<u>\$ 12,905,322</u>	<u>\$ 10,441,423</u>	<u>\$ 9,694,960</u>
Percent of all patients	<u>77%</u>	<u>75%</u>	<u>82%</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>Property, Plant and Equipment</u>			
	<u>Beginning</u>	<u>1996</u>		<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u>
Land	\$ 27,500	\$ -0-	\$ -0-	\$ 27,500
Buildings	2,967,049	967,751	-0-	3,934,800
Leasehold improvements	1,295,801	71,699	-0-	1,367,500
Furniture and equipment	3,175,521	1,059,620	23,521	4,211,620
Construction in progress	<u>670,118</u>	<u>305,153</u>	<u>961,805</u>	<u>13,466</u>
Totals	<u>\$ 8,135,989</u>	<u>\$ 2,404,223</u>	<u>\$ 985,326</u>	<u>\$ 9,554,886</u>

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 8 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include certificates of deposit set aside by the Board of Commissioners for the following purposes:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Capital improvements	\$ 310,685	\$ 668,587	\$ 649,279
Debt retirement	487,266	330,305	190,534
Contingencies	244,162	231,439	1,000,000
Self-insured unemployment fund	<u>150,354</u>	<u>22,679</u>	<u>-0-</u>
	1,192,467	1,253,010	1,839,813
Less certificates of deposit whose use is limited (in current assets)	<u>-0-</u>	<u>-0-</u>	<u>(1,000,000)</u>
Total	<u>\$ 1,192,467</u>	<u>\$ 1,253,010</u>	<u>\$ 839,813</u>

NOTE 9 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$150,518, \$127,204 and \$108,471 of vacation pay at April 30, 1996, 1995 and 1994, respectively. It is impracticable to estimate the amount of compensation for sick pay and accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of sick pay when paid to employees.

NOTE 10 - LONG-TERM DEBT

Following is a summary of capital lease obligations payable at April 30:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Lease purchase agreement with Citicorp North America, Inc., for computer hardware and software. The contract made on August 31, 1990, with a maturity date September 30, 1995, calls for monthly payments of \$2,865, which includes principal and interest of 7.85% per annum. Secured by the computer system, with a book value of \$29,154 as of April 30, 1996.	\$ -0-	\$ 14,047	\$ 45,949

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)

The following property, plant and equipment was acquired by the Police Jury and is reported in the District's financial statements:

<u>Cost or Fair Market Value on the Date of Donation</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,500	1,842,500	1,842,500
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>\$ 2,058,716</u>	<u>\$ 2,058,716</u>	<u>\$ 2,058,716</u>
 <u>Accumulated Depreciation</u>			
Buildings	\$ 1,364,995	\$ 1,330,055	\$ 1,295,116
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>1,553,771</u>	<u>1,518,771</u>	<u>1,483,832</u>
Book Value of Property, Plant and Equipment	<u>\$ 505,005</u>	<u>\$ 539,945</u>	<u>\$ 574,884</u>

These assets were obtained in part with funds from a Hill-Burton program grant of \$763,844. The Hill-Burton program has the ability to recapture a portion of the depreciated replacement cost of these assets should the facility be closed or not used by a qualified recipient.

NOTE 7 - ORGANIZATIONAL COSTS

Organizational costs represent expenditures, less amortization, related to the start-up of home health and swing bed services. Straight-line amortization over 60 months began in May, 1991 upon inception of the new services.

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Property, Plant and Equipment 1994			
	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 27,500	\$ -0-	\$ -0-	\$ 27,500
Buildings	2,924,882	-0-	-0-	2,924,882
Leasehold improvements	648,485	483,993	-0-	1,132,478
Furniture and equipment	2,572,810	348,618	56,194	2,865,234
Construction in progress	20,514	71,105	16,247	75,372
Totals	\$ 6,194,191	\$ 903,716	\$ 72,441	\$ 7,025,466

	Accumulated Depreciation 1994			
	Beginning Balance	Additions	Dispositions	Ending Balance
Buildings	\$ 1,448,435	\$ 77,906	\$ -0-	\$ 1,526,341
Leasehold improvements	111,989	55,083	-0-	167,072
Furniture and equipment	1,825,238	168,142	21,888	1,971,492
Totals	\$ 3,385,662	\$ 301,131	\$ 21,888	\$ 3,664,905

Included in furniture and equipment are physician's office furnishings and medical equipment with a cost of \$20,000. The District has agreed to transfer these assets in 1999 to physicians if the conditions of the physicians' recruitment contracts are met.

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT

As discussed in Note 1, the hospital facility and original equipment were acquired with the proceeds of ad valorem tax bonds issued by the Franklin Parish Police Jury.

Effective September 29, 1992, the Police Jury renewed its lease to the District. The lease has a term of 30 years and may be terminated at any time by mutual consent of both entities. The lease does not call for the District to pay consideration to the Police Jury.

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>Beginning Balance</u>	<u>Accumulated Depreciation 1996</u>		<u>Ending Balance</u>
		<u>Additions</u>	<u>Dispositions</u>	
Buildings	\$ 1,604,296	\$ 85,096	\$ -0-	\$ 1,689,392
Leasehold improvements	234,269	79,716	-0-	313,985
Furniture and equipment	<u>2,195,890</u>	<u>342,899</u>	<u>11,436</u>	<u>2,527,353</u>
Totals	<u>\$ 4,034,455</u>	<u>\$ 507,711</u>	<u>\$ 11,436</u>	<u>\$ 4,530,730</u>

	<u>Beginning Balance</u>	<u>Property, Plant and Equipment 1995</u>		<u>Ending Balance</u>
		<u>Additions</u>	<u>Dispositions</u>	
Land	\$ 27,500	\$ -0-	\$ -0-	\$ 27,500
Buildings	2,924,882	42,167	-0-	2,967,049
Leasehold improvements	1,132,478	163,323	-0-	1,295,801
Furniture and equipment	2,865,234	315,687	5,400	3,175,521
Construction in progress	<u>75,372</u>	<u>782,443</u>	<u>187,697</u>	<u>670,118</u>
Totals	<u>\$ 7,025,466</u>	<u>\$ 1,303,620</u>	<u>\$ 193,097</u>	<u>\$ 8,135,989</u>

	<u>Beginning Balance</u>	<u>Accumulated Depreciation 1995</u>		<u>Ending Balance</u>
		<u>Additions</u>	<u>Dispositions</u>	
Buildings	\$ 1,526,341	\$ 77,955	\$ -0-	\$ 1,604,296
Leasehold improvements	167,072	67,197	-0-	234,269
Furniture and equipment	<u>1,971,492</u>	<u>227,968</u>	<u>3,570</u>	<u>2,195,890</u>
Totals	<u>\$ 3,664,905</u>	<u>\$ 373,120</u>	<u>\$ 3,570</u>	<u>\$ 4,034,455</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 10 - LONG-TERM DEBT (Continued)

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Capital lease obligation to Citicorp North America, Inc., for an anesthesia machine, computer equipment and a patient monitoring system. The contract made on June 25, 1992, with a maturity date of June 25, 1997, calls for monthly payments of \$1,067.51, which includes principal and interest of 7.48% per annum. Secured by the equipment with a book value of \$21,062 as of April 30, 1996.	\$ 14,269	\$ 25,550	\$ 36,021
Capital lease obligation to Xerox Corporation for a copier. The contract made on December 1, 1993, with a maturity date of November 30, 1996, calls for monthly payments of \$176.95, which includes principal and interest of 6.00% per annum. Secured by the copier with a book value of \$3,866 as of April 30, 1996.	<u>1,918</u>	<u>4,019</u>	<u>5,841</u>
Total capital leases payable	16,187	43,616	87,811
Less current portion of capital leases payable	<u>(14,072)</u>	<u>(27,263)</u>	<u>(44,195)</u>
Long-term portion of capital leases payable	<u>\$ 2,115</u>	<u>\$ 16,353</u>	<u>\$ 43,616</u>

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Income Taxes

The District's income is exempt from taxation.

NOTE 3 - CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents, short-term investments and assets whose use is limited are cash on hand and deposits with the depository banks for checking accounts and certificates of deposits, which were secured at the balance sheet dates by federal depository insurance coverage and by pledged securities. For all deposits, the market value and carrying value are the same.

The District's investment policy restricts excess funds to be invested in certificates of deposit at the highest available interest rate obtained from three competing banks in Franklin Parish, Louisiana.

The following is a summary of cash and cash equivalents as of April 30:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Enterprise Fund			
Cash	\$ 86,242	\$ 144,360	\$ 6,729
Certificates of deposit	<u>1,138,698</u>	<u>1,302,726</u>	<u>1,363,050</u>
Total	<u>\$ 1,224,940</u>	<u>\$ 1,447,086</u>	<u>\$ 1,369,779</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients.

Inventory

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

Property, Plant and Equipment

The basis of property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The District uses straight-line depreciation for all assets. The useful lives of plant and equipment for the purpose of computing depreciation are:

Buildings	25 to 40 years
Machinery and equipment	5 to 30 years
Furniture and fixtures	5 to 15 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Charity Care

The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Proprietary Fund Type

The operating accounts of the District are organized into one proprietary fund type. The operation of the proprietary fund is accounted for by providing a set of self-balancing accounts which are comprised of assets, liabilities, fund equity, revenues and expenses.

Enterprise funds are used to account for operations (a) 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, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Accounting for Governmental Fund Types

Donor-restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of enterprise funds on which donors or grantors place no restriction or that arise as a result of the operations of the hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted fund.

Resources restricted by donors for plant replacement and expansion are added to the plant replacement and expansion fund when received and to the enterprise fund equity to the extent expended within the period.

Resources restricted by donors or grantors for specific operating purposes are reported in the specific purpose fund when received and in the enterprise fund non-operating gains to the extent used within the period.

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits and certificates of deposit purchased with a maturity of three months or less. Cash and cash equivalents do not include amounts classified as assets whose use is limited.

Uncollectible Accounts

The District's estimate of collectibility is applied to accounts receivable to establish an allowance for uncollectible accounts.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Hospital Service District Number One of the Parish of Franklin, State of Louisiana (referred to as "Franklin Medical Center") was created by an ordinance of the Franklin Parish Police Jury on November 2, 1965.

The District is a political subdivision of the Franklin Parish Police Jury whose jurors are elected officials. Its commissioners are appointed by the Franklin Parish Police Jury. Accordingly, Statement No. 14 requires these financial statements to be included in those of the Franklin Parish Police Jury.

The hospital facility was originally built by the Franklin Parish Police Jury which issued ad valorem tax bonds to finance its construction. The District leases the hospital facility and some equipment from the Police Jury as explained further in Note 6. All transactions related to the original bonds sold to finance the facility, the related interest expense, and tax revenues for the payment of the bonds are reflected in the financial statements of Franklin Parish Police Jury. The final bond redemption was made during April 1986, thereby eliminating the Police Jury bond indebtedness related to the District.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, home health, inpatient acute hospital services and inpatient geriatric psychiatric services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Financial Reporting Entity

The accompanying general purpose financial statements of Franklin Medical Center present the financial position and changes in fund equity for the enterprise fund. The results of operations and cash flow are also presented for the enterprise fund.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess revenues	\$ 958,325	\$ 701,273	\$ 1,428,886
Adjustments to reconcile excess revenue and gains less expenses and losses to net cash provided by operating activities and gains and losses			
Depreciation and amortization	512,827	378,235	306,473
(Gain) or loss on disposal of assets	(4,280)	33	(379)
Interest expense	28,764	33,691	37,990
Interest income	(147,371)	(152,088)	(95,975)
Changes in current assets (increase) decrease			
Accounts receivable, net of allowances for uncollectibles	(544,429)	(730,511)	522,437
Inventories	(16,658)	7,245	3,836
Prepaid insurance	(23,589)	3,965	(10,774)
Short-term investments	(104,059)	99,306	(565,634)
Assets whose use is limited	-0-	1,000,000	(1,000,000)
Changes in current liabilities increase (decrease)			
Accounts payable and accrued expenses	353,421	173,661	39,677
Accrued salary and payroll taxes	25,197	5,721	10,586
Accrued vacation payable	23,314	18,733	22,878
	<u>1,061,462</u>	<u>1,539,264</u>	<u>700,001</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash proceeds from certificates of deposit invested for assets whose use is limited	60,543	-0-	-0-
Limited certificates of deposit invested for assets whose use is limited	-0-	(413,197)	(212,446)
Interest earned	147,371	152,088	95,975
	<u>\$ 207,914</u>	<u>\$ (261,109)</u>	<u>\$ (116,471)</u>

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

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

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Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

Independent Auditors' Report

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the accompanying general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 1996, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin Medical Center, as of and for the years ended April 30, 1996, 1995 and 1994, and the results of its operations and its cash flow for the years then ended, in conformity with generally accepted accounting principles applicable to governmental entities.

In accordance with Governmental Auditing Standards, we have also issued a report dated July 18, 1996, on our consideration of the District's internal control structure and a report dated July 18, 1996, on its compliance with laws and regulations.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Page Two

This report is intended for the information of the Board of Commissioners, management, and Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Easley Lester & Wells

July 18, 1996

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HOSPITAL SERVICE DISTRICT NUMBER ONE
PARISH OF FRANKLIN, STATE OF LOUISIANA
("FRANKLIN MEDICAL CENTER")
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

DEC 04 1996

Release Date _____

FRANKLIN MEDICAL CENTER
 STATEMENTS OF CASH FLOWS (Continued)
 PROPRIETARY FUND TYPE - ENTERPRISE FUND
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of building and equipment	\$ (1,430,603)	\$ (1,116,195)	\$ (880,902)
Proceeds from disposal of equipment	4,280	1,800	34,188
Proceeds from plant replacement and expansion fund	-0-	-0-	312,620
Principal payments on capital leases and bonds	(36,435)	(52,762)	(96,553)
Proceeds from the issuance of bonds	-0-	-0-	555,000
Interest expense on leases and bonds	<u>(28,764)</u>	<u>(33,691)</u>	<u>(37,990)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,491,522)</u>	<u>(1,200,848)</u>	<u>(113,637)</u>
Net increase (decrease) in cash	(222,146)	77,307	469,893
Beginning cash and cash equivalents	<u>1,447,086</u>	<u>1,369,779</u>	<u>899,886</u>
Ending cash and cash equivalents	<u>\$ 1,224,940</u>	<u>\$ 1,447,086</u>	<u>\$ 1,369,779</u>
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for interest	<u>\$ 28,764</u>	<u>\$ 33,691</u>	<u>\$ 37,850</u>
Capital lease obligations incurred in conjunction with equipment acquisitions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,569</u>

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

HOSPITAL SERVICE DISTRICT NUMBER ONE
PARISH OF FRANKLIN, STATE OF LOUISIANA
("FRANKLIN MEDICAL CENTER")
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

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FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 15 - CONTINGENCIES (Continued)

Workmen's Compensation (Note 14) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the Police Jury receiving a federal Hill-Burton program grant, the Hospital was required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. The Hospital's obligation for uncompensated services was fulfilled on April 30, 1992. Additionally, the grant required the Hospital to provide community services such as participating in the Medicare and Medicaid programs for an indefinite period.

Medical Benefits Trust - On April 1, 1988, the District established a medical benefits trust. The District contributes amounts that it deems sufficient to cover the health benefit cost of its full-time employees. Employees are allowed to contribute to the trust through payroll deductions in order to obtain dependent coverage.

The trust purchases "excess" insurance coverage that provides for payment of individual claims in excess of \$17,500 or aggregate annual claims in excess of \$410,323. The trust pays all other claims from its general funds. The trust agreement provides that should it not have sufficient funds to cover its obligations, the District is obligated to fund the shortfall. The shortfall at April 30, 1996 and 1994 was \$29,270 and \$56,135, respectively. These amounts were accrued as a current liability at April 30.

Self-insured for Unemployment Compensation - Effective January 1, 1995, the District opted to become self-insured for unemployment compensation. The District is contributing 2.65% of the payroll into a restricted certificate of deposit (Note 8) to cover all claims and management fees.

Litigation - Various claims in the ordinary course of business are pending against the District. The District's attorney has confirmed that there are no claims pending against the District which are not covered by some type of insurance, except for one lawsuit in which the attorney believes the District should prevail.

NOTE 16 - COMMITMENTS

Physician Recruitment Contracts - The District has entered into a physician recruitment contract in which certain physician expenses are reimbursed or paid by the District. Accordingly, the actual future cash requirements of the District cannot be determined.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 15 - CONTINGENCIES

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Third Party Cost-Based Revenues (Note 4) - Cost reimbursements are subject to examination by agencies administering the programs. Effective May 1, 1984, the Medicare program discontinued its cost-based reimbursement system for inpatient services with the exception of reimbursement for capital cost (primarily depreciation and interest expense). Under the new program, the District receives a fixed fee for each patient. The fee is determined by the District's cost per discharge in 1983 trended forward and blended with an amount established by the government. The District 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.

During fiscal years 1996, 1995 and 1994, the District qualified to receive Medicare Disproportionate share payments. The District was slightly above the qualification for Medicare Disproportionate share during 1995. This qualification is subject to audit, and if not met during a fiscal year, the District will be required to repay disproportionate share payments applicable to that year to the Medicare program. The District received \$169,304, \$161,460 and \$152,947 in 1996, 1995 and 1994, respectively, in disproportionate share payments.

Federal and State budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end settlements. The Medicare program is currently placing increasing emphasis on the timeliness of billing for hospitals, such as the District, that receives interim reimbursement on the Periodic Interim Payment (PIP) method. These actions could result in decreased cash flow to the District and such decreases could be material.

Further, in order to continue receiving reimbursement from the Medicare and Medicaid programs, the District entered into an agreement with the Peer Review Organization (PRO) allowing PRO access to its Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. PRO has the ability to deny reimbursement for Medicare patient claims which have already been paid to the District.

Professional Liability Risk (Note 13) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund.

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - NURSING SERVICE
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Nursing administration			
Salaries	\$ 104,669	\$ 91,679	\$ 89,632
Other	<u>48</u>	<u>0</u>	<u>0</u>
Total nursing administration	<u>104,717</u>	<u>91,679</u>	<u>89,632</u>
Floor nursing			
Salaries	1,142,218	1,128,610	1,038,387
Other	<u>95,363</u>	<u>113,260</u>	<u>85,000</u>
Total floor nursing	<u>1,237,581</u>	<u>1,241,870</u>	<u>1,123,387</u>
Intensive care unit			
Salaries	356,678	364,769	367,241
Other	<u>23,798</u>	<u>12,377</u>	<u>10,297</u>
Total intensive care unit	<u>380,476</u>	<u>377,146</u>	<u>377,538</u>
Psychiatric unit - other	<u>1,391,265</u>	<u>48,701</u>	<u>0</u>
Operating room			
Salaries	142,486	129,208	147,016
Other	<u>48,711</u>	<u>41,276</u>	<u>18,894</u>
Total operating room	<u>191,197</u>	<u>170,484</u>	<u>165,910</u>
Anesthesia			
Salaries	4,826	4,813	4,813
Other	<u>156,917</u>	<u>171,825</u>	<u>153,270</u>
Total anesthesia	<u>161,743</u>	<u>176,638</u>	<u>158,083</u>
Total nursing service			
Salaries	1,750,877	1,719,079	1,647,089
Other	<u>1,716,102</u>	<u>387,439</u>	<u>267,461</u>
Total nursing service	<u>\$ 3,466,979</u>	<u>\$ 2,106,518</u>	<u>\$ 1,914,550</u>

FRANKLIN MEDICAL CENTER
NET PATIENT SERVICE REVENUE (continued)
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Other professional services (continued)			
Emergency room			
Inpatient	\$ 67,330	\$ 62,460	\$ 50,182
Outpatient	<u>297,850</u>	<u>298,590</u>	<u>236,425</u>
Total emergency room	<u>365,180</u>	<u>361,050</u>	<u>286,607</u>
Emergency room physicians			
Inpatient	155,877	134,361	92,958
Outpatient	<u>542,190</u>	<u>543,806</u>	<u>482,760</u>
Total emergency room physicians	<u>698,067</u>	<u>678,167</u>	<u>575,718</u>
Central supply			
Inpatient	1,994,317	1,997,762	1,935,891
Outpatient	<u>372,169</u>	<u>368,435</u>	<u>291,541</u>
Total central supply	<u>2,366,486</u>	<u>2,366,197</u>	<u>2,227,432</u>
Laboratory			
Inpatient	800,424	789,046	785,278
Outpatient	<u>330,036</u>	<u>292,661</u>	<u>289,811</u>
Total laboratory	<u>1,130,460</u>	<u>1,081,707</u>	<u>1,075,089</u>
Blood			
Inpatient	39,516	40,551	38,982
Outpatient	<u>5,006</u>	<u>3,278</u>	<u>2,695</u>
Total blood	<u>44,522</u>	<u>43,829</u>	<u>41,677</u>
EKG			
Inpatient	217,440	208,840	197,704
Outpatient	<u>115,925</u>	<u>115,342</u>	<u>95,096</u>
Total EKG	<u>\$ 333,365</u>	<u>\$ 324,182</u>	<u>\$ 292,800</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

Medicaid (continued) - The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through April 30, 1994.

Blue Cross - Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment.

NOTE 13 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide professional medical liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund 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 settlement for professional liability to \$500,000 per occurrence.

The constitutionality of this legislation has not been tested by the courts although the Louisiana Supreme Court has decided that this limit does not apply in cases of strict liability.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are redetermined utilizing actual losses and expenses of the fund. Each year's retroactive assessment, if any, may not exceed the District's premium due during such plan year. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are pro-rated to member hospitals. The District has not included these allocations or equity in the trust in its financial statements which reflect cash transactions with the trust fund as insurance expense or a reduction thereof.

NOTE 14 - WORKMEN'S COMPENSATION

The District participates in the Louisiana Hospital Association self-insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro-rata share of the resulting deficit. It is not possible to estimate the amount, if any, of additional assessments.

FRANKLIN MEDICAL CENTER
NET PATIENT SERVICE REVENUE (continued)
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Other professional services (continued)			
Home health services	\$ 988,416	\$ 964,666	\$ 989,149
Transportation	<u>54,273</u>	<u>19,679</u>	<u>0</u>
Total other professional services	<u>12,421,295</u>	<u>11,909,952</u>	<u>9,895,978</u>
Total patient service revenue	16,808,660	13,962,852	11,859,483
Deductions from Revenue:			
Contractual Allowances	4,660,384	3,720,532	2,283,264
Policy discounts and charity care	<u>43,313</u>	<u>43,177</u>	<u>65,041</u>
Total Deductions from Revenue	<u>4,703,697</u>	<u>3,763,709</u>	<u>2,348,305</u>
 Net Patient Service Revenue	 <u>\$12,104,963</u>	 <u>\$10,199,143</u>	 <u>\$ 9,511,178</u>

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - OTHER PROFESSIONAL SERVICES (Continued)
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
CT scan - other	\$ 7,135	\$ 144,919	\$ 124,004
Nuclear medicine - other	<u>34,725</u>	<u>20,530</u>	<u>17,035</u>
Medical records			
Salaries	62,530	57,014	53,704
Other	<u>11,521</u>	<u>7,109</u>	<u>5,325</u>
Total medical records	<u>74,051</u>	<u>64,123</u>	<u>59,029</u>
Home health			
Salaries	362,158	349,425	338,370
Other	<u>99,908</u>	<u>102,362</u>	<u>110,535</u>
Total home health	<u>462,066</u>	<u>451,787</u>	<u>448,905</u>
Transportation			
Salaries	53,945	13,152	0
Other	<u>22,298</u>	<u>12,026</u>	<u>0</u>
Total transportation	<u>76,243</u>	<u>25,178</u>	<u>0</u>
Total other professional services			
Salaries	1,224,073	1,141,520	967,746
Other	<u>2,898,856</u>	<u>2,946,054</u>	<u>2,537,657</u>
Total other professional services	<u>\$ 4,122,929</u>	<u>\$ 4,087,574</u>	<u>\$ 3,505,403</u>

FRANKLIN MEDICAL CENTER
OTHER OPERATING REVENUE
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Cafeteria sales	\$ 45,159	\$ 37,920	\$ 36,748
Vending machine commission	3,794	3,727	4,371
Physician office rentals	115,623	86,493	78,176
Medical records abstract fees	6,002	6,242	6,077
Miscellaneous revenue	<u>599</u>	<u>17,397</u>	<u>1,777</u>
Total other operating revenue	<u>\$ 171,177</u>	<u>\$ 151,779</u>	<u>\$ 127,149</u>

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - OTHER PROFESSIONAL SERVICES
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Radiology			
Salaries	\$ 165,169	\$ 141,019	\$ 111,753
Other	<u>310,947</u>	<u>266,898</u>	<u>86,970</u>
Total radiology	<u>476,116</u>	<u>407,917</u>	<u>198,723</u>
Laboratory and blood - other	<u>614,447</u>	<u>619,351</u>	<u>553,704</u>
Respiratory therapy			
Salaries	188,348	162,471	146,621
Other	<u>38,834</u>	<u>38,886</u>	<u>37,940</u>
Total respiratory therapy	<u>227,182</u>	<u>201,357</u>	<u>184,561</u>
Physical therapy - other	<u>73,131</u>	<u>97,590</u>	<u>83,576</u>
EKG - other	<u>81,124</u>	<u>65,027</u>	<u>61,461</u>
Central supply			
Salaries	11,875	12,396	13,618
Other	<u>314,559</u>	<u>386,178</u>	<u>306,820</u>
Total central supply	<u>326,434</u>	<u>398,574</u>	<u>320,438</u>
Pharmacy			
Salaries	162,012	158,455	125,910
Other	<u>496,514</u>	<u>467,637</u>	<u>403,211</u>
Total pharmacy	<u>658,526</u>	<u>626,092</u>	<u>529,121</u>
Emergency room			
Salaries	218,036	247,588	177,770
Other	<u>793,713</u>	<u>717,541</u>	<u>747,076</u>
Total emergency room	<u>\$ 1,011,749</u>	<u>\$ 965,129</u>	<u>\$ 924,846</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 17 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by American United Life Insurance Company (AUL) who holds all plan assets. All of the employees over the age of 21 who worked at least 1,040 hours of service per year and who have completed one year of service are covered under the plan. The plan is an annuity contract funded individually for each participant. Employees contribute 3% of their annual salaries and the District matches the employees contributions. Actual contributions made by the District for the years ended April 30, 1996, 1995 and 1994 were \$51,248, \$46,346 and \$54,226, respectively.

NOTE 18 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 1996.

Jack Hammons, Chairman
Tom Kerrigan, Vice Chairman
Lantz Womack
Rebecca Singleton
Joe M. Gravelle

NOTE 19 - EXTRAORDINARY INCOME

During fiscal year 1994, the District received \$454,703 as a result of a retroactive statute allowing it to obtain a Medicare Dependent reimbursement adjustment for its fiscal year 1993. The statute provided for Medicare Dependent reimbursement through October 1, 1994.

NOTE 20 - MAINTENANCE TAXES

On April 27, 1995, the District elected not to renew the annual maintenance tax.

NOTE 21 - SUBSEQUENT EVENT

On May 1, 1996, the District paid \$529,941 to retire all of its bonds payable.

On July 3, 1996, the District purchased the lot adjacent to the hospital for \$150,000.

SUPPLEMENTAL INFORMATION

FRANKLIN MEDICAL CENTER
 PATIENT STATISTICS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Number of Patient Days of Care			
Medicare	10,529	7,171	6,971
Medicaid	2,205	2,163	2,396
Other	<u>1,244</u>	<u>1,268</u>	<u>1,253</u>
Total	<u><u>13,978</u></u>	<u><u>10,602</u></u>	<u><u>10,620</u></u>
Number of Patient Discharges			
Medicare	1,555	1,455	1,415
Medicaid	495	597	620
Other	<u>518</u>	<u>430</u>	<u>425</u>
Total	<u><u>2,568</u></u>	<u><u>2,482</u></u>	<u><u>2,460</u></u>
Average Length of Patient Stay			
Medicare	6.8	4.9	4.9
Medicaid	4.5	3.6	3.9
Other	2.4	2.9	2.9
All Patients	5.4	4.3	4.3
Number of Surgical Cases	<u><u>972</u></u>	<u><u>1,082</u></u>	<u><u>855</u></u>
Number of Emergency Room Visits	<u><u>10,024</u></u>	<u><u>9,637</u></u>	<u><u>8,780</u></u>

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

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Alexandria, LA 71306-1758

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Hospital Service District No.1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996.

We have also audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended April 30, 1996. The management of the District is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the District complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended April 30, 1996.

FRANKLIN MEDICAL CENTER
NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Daily patient services:			
Routine services	\$ 1,594,565	\$ 1,635,800	\$ 1,636,255
Intensive care	323,750	328,650	327,250
Psychiatric	<u>2,469,050</u>	<u>88,450</u>	<u>0</u>
Total daily patient services	<u>4,387,365</u>	<u>2,052,900</u>	<u>1,963,505</u>
Other professional services:			
Operating room			
Inpatient	121,635	149,725	110,094
Outpatient	<u>184,602</u>	<u>173,830</u>	<u>117,623</u>
Total operating room	<u>306,237</u>	<u>323,555</u>	<u>227,717</u>
Anesthesia			
Inpatient	177,060	193,308	128,820
Outpatient	<u>178,662</u>	<u>189,042</u>	<u>112,500</u>
Total anesthesia	<u>355,722</u>	<u>382,350</u>	<u>241,320</u>
Recovery room			
Inpatient	15,697	18,024	16,297
Outpatient	<u>27,924</u>	<u>31,713</u>	<u>23,595</u>
Total recovery room	<u>43,621</u>	<u>49,737</u>	<u>39,892</u>
Pharmacy			
Inpatient	2,286,035	1,958,414	1,554,656
Outpatient	<u>282,661</u>	<u>296,059</u>	<u>190,221</u>
Total pharmacy	<u>2,568,696</u>	<u>2,254,473</u>	<u>1,744,877</u>
Respiratory care			
Inpatient	1,344,135	1,292,974	1,037,720
Outpatient	<u>33,989</u>	<u>46,612</u>	<u>34,542</u>
Total respiratory care	<u>\$ 1,378,124</u>	<u>\$ 1,339,586</u>	<u>\$ 1,072,262</u>

FRANKLIN MEDICAL CENTER
BALANCE SHEETS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
APRIL 30, 1996, 1995 AND 1994

	1996	1995	1994
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 1,224,940	\$ 1,447,086	\$ 1,369,779
Short-term investments	570,387	466,328	565,634
Assets whose use is limited (Note 8)	0	0	1,000,000
Accounts receivable, net of allowances for uncollectibles (Note 4)	2,508,179	1,963,750	1,233,239
Inventories	245,805	229,147	236,392
Prepaid expenses	156,913	133,324	137,289
Total Current Assets	4,706,224	4,239,635	4,542,333
Noncurrent Assets			
Property, plant and equipment (Notes 5 and 6)	9,554,886	8,135,989	7,025,466
Accumulated depreciation	(4,530,730)	(4,034,455)	(3,664,905)
Net Property, Plant and Equipment	5,024,156	4,101,534	3,360,561
Organizational costs (Note 7)	0	4,846	9,692
Assets whose use is limited (Note 8)	1,192,467	1,253,010	839,813
Total Noncurrent Assets	6,216,623	5,359,390	4,210,066
Total Assets	\$10,922,847	\$ 9,599,025	\$ 8,752,399
LIABILITIES AND FUND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	\$ 862,372	\$ 508,951	\$ 335,290
Accrued salary and payroll taxes	96,904	71,707	65,986
Accrued vacation payable (Note 9)	150,518	127,204	108,471
Current portion of long-term liabilities	23,539	36,269	52,762
Total Current Liabilities	1,133,333	744,131	562,509
Long-Term Liabilities			
Capital lease obligations (Note 10)	2,115	16,353	43,616
Bonds Payable (Note 10)	520,474	529,941	538,947
Total Long-Term Liabilities	522,589	546,294	582,563
Total Liabilities	1,655,922	1,290,425	1,145,072
Contingencies (Note 15)	-	-	-
Fund Equity	9,266,925	8,308,600	7,607,327
Total Liabilities and Fund Equity	\$10,922,847	\$ 9,599,025	\$ 8,752,399

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

FRANKLIN MEDICAL CENTER
NET PATIENT SERVICE REVENUE (continued)
FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Other professional services (continued)			
Ambulance			
Inpatient	\$ 1,035	\$ 6,168	\$ 12,402
Outpatient	<u>12,017</u>	<u>13,521</u>	<u>1,620</u>
Total ambulance	<u>13,052</u>	<u>19,689</u>	<u>14,022</u>
 Radiology			
Inpatient	468,941	446,666	242,832
Outpatient	<u>583,036</u>	<u>621,267</u>	<u>289,018</u>
Total radiology	<u>1,051,977</u>	<u>1,067,933</u>	<u>531,850</u>
 Ultrasound			
Inpatient	15,350	15,092	14,654
Outpatient	<u>19,431</u>	<u>25,015</u>	<u>22,738</u>
Total ultrasound	<u>34,781</u>	<u>40,107</u>	<u>37,392</u>
 CT scan			
Inpatient	274,431	238,917	196,850
Outpatient	<u>222,732</u>	<u>155,296</u>	<u>114,421</u>
Total CT scan	<u>497,163</u>	<u>394,213</u>	<u>311,271</u>
 Nuclear medicine			
Inpatient	32,100	23,333	23,980
Outpatient	<u>45,600</u>	<u>46,880</u>	<u>30,517</u>
Total nuclear medicine	<u>77,700</u>	<u>70,213</u>	<u>54,497</u>
 Physical therapy			
Inpatient	59,222	54,614	33,524
Outpatient	<u>54,231</u>	<u>74,005</u>	<u>98,882</u>
Total physical therapy	<u>\$ 113,453</u>	<u>\$ 128,619</u>	<u>\$ 132,406</u>

Separation of Duties

- Finding:** Duties in the areas of purchasing and receiving, payroll and personnel, recording and paying expenses and computer access are not sufficiently segregated to maintain a good internal control structure.
- Recommendation:** We recommend that segregation of duties be implemented to the extent feasible.
- Response:** The district will review employee duties and improve segregation of duties to the extent financially feasible.

Property, Plant and Equipment

- Finding:** It was noted that the District did not have a policy for set aside funds in order to acquire major acquisition purchases of equipment or construction of new facilities.
- Recommendation:** We suggest that management present to the Board of Commissioners for their approval a policy which provides for funds to be set aside before acquiring equipment over a certain dollar threshold and for construction of new buildings. The policy should contain an exemption clause for emergency purchases.
- Response:** A policy requiring set-a-side funds before purchasing property, plant, and equipment over an established threshold will be presented to the Board for their approval.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Page Two

This report is intended for the information of the Board of Commissioners, management, and Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Easley Lester & Wells

July 18, 1996

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members

American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE TO
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996.

We have applied procedures to test the District's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended April 30, 1996.

- a. Political activity
- b. Civil rights
- c. Cash management
- d. Davis-Bacon Act
- e. Federal financial reports
- f. Drug-free workplace

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Single Audits of State and Local Governments". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those requirements.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Page Three

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the District's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We did not note any matters involving the internal control structure and its operation that we consider to be reportable conditions, under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the District's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Commissioners, management, and Louisiana Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

Easley, Lester & Wells

July 18, 1996

The management of the District, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

1. Accounting Controls
 - a. Receivables
 - b. Cash Receipts
 - c. Purchasing and receiving
 - d. Accounts payable
 - e. Cash disbursements
 - f. Payroll
 - g. Inventory control
 - h. Property, plant and equipment

2. Federal assistance program controls
 - General
 - a. Political activity
 - b. Civil Rights
 - c. Cash management
 - d. Davis-Bacon Act
 - e. Federal financial reports
 - f. Drug-free workplace

 - Specific
 - a. Types of services allowed or unallowed
 - b. Matching, level of effort, and/or earmarking requirements
 - c. Reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members

American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL
CONTROL STRUCTURE USED IN ADMINISTERING
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996. We have also audited the compliance of the District with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 18, 1996.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the District complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the years ended April 30, 1996, 1995 and 1994, we considered the internal control structure of the District in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the District, and on the compliance of the District, with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated July 18, 1996.

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

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Paul A. Delaney, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
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American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements of the District taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Easley Lester & Wells

July 18, 1996

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Page Two

While performing our audit, we read the responses to the questions in the Systems Survey and Compliance Questionnaire completed by management and adopted by the Board of Commissioners and found no evidence that would indicate that the Hospital Service District had not answered the questions correctly. However, it should be noted that our audit was not directed primarily towards verifying the answers to the questions in the questionnaire.

This report is intended for the information of the Board of Commissioners, management and applicable state and federal agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Easley Lester & Wells

July 18, 1996

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 11 - CHARITY CARE

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended April 30, 1996, 1995 and 1994.

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Charges foregone, based on established rates	\$ <u>15,927</u>	\$ <u>14,238</u>	\$ <u>36,561</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>10,010</u>	\$ <u>9,015</u>	\$ <u>24,812</u>
Equivalent percentage of charity care patients to all patients served	<u>.09%</u>	<u>.10%</u>	<u>.31%</u>

NOTE 12 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District 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. Inpatient non-acute services, certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through April 30, 1994. Swing bed routine services are reimbursed based on a prospectively determined rate per patient day and other services including home health are reimbursed based upon a cost reimbursement methodology (with home health being subject to limits on a cost per visit basis).

Medicaid - Inpatient services prior to July 1, 1994, and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology (subject to a maximum per patient for inpatient services). Effective July 1, 1994, Medicaid inpatient services are reimbursed based on a prospectively determined per diem rate.

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
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EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members

American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

Independent Auditors' Report on Compliance
Based on an Audit of General Purpose
Financial Statements Performed in Accordance with
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center") as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Franklin Medical Center is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our test disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards.

Finding: We noted that \$5,000 of deferred compensation due to an employee in 1995 was deposited in the employee's personal savings account rather than the appropriate annuity. The payment was not reported on the employee's form W-2 in 1995 but is being included in taxable income in 1996.

Recommendation: We recommend that deferred compensation should be paid directly into the appropriate annuity. All other compensation should be reported on form W-2 in the year of payment.

Response: The recommendation will be followed.

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - GENERAL SERVICES
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Dietary			
Salaries	\$ 145,661	\$ 138,841	\$ 123,546
Other	<u>165,983</u>	<u>129,399</u>	<u>138,968</u>
Total dietary	<u>311,644</u>	<u>268,240</u>	<u>262,514</u>
Housekeeping			
Salaries	134,686	115,137	106,011
Other	<u>50,002</u>	<u>37,513</u>	<u>32,638</u>
Total housekeeping	<u>184,688</u>	<u>152,650</u>	<u>138,649</u>
Laundry			
Salaries	30,626	27,870	22,451
Other	<u>16,144</u>	<u>18,010</u>	<u>18,791</u>
Total laundry	<u>46,770</u>	<u>45,880</u>	<u>41,242</u>
Plant operations - other	<u>201,567</u>	<u>179,390</u>	<u>185,440</u>
Maintenance			
Salaries	171,876	156,620	166,814
Other	<u>85,674</u>	<u>64,890</u>	<u>96,844</u>
Total maintenance	<u>257,550</u>	<u>221,510</u>	<u>263,658</u>
Social service			
Salaries	25,749	23,039	22,368
Other	<u>5,034</u>	<u>4,985</u>	<u>4,981</u>
Total social service	<u>30,783</u>	<u>28,024</u>	<u>27,349</u>
Security			
Salaries	34,387	32,768	24,212
Other	<u>1,234</u>	<u>582</u>	<u>917</u>
Total security	<u>\$ 35,621</u>	<u>\$ 33,350</u>	<u>\$ 25,129</u>

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Page Two

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The schedule that accompanies this letter summarizes our comments and suggestions regarding these matters.

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

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

This report is intended for the information of the Board of Commissioners, management and all applicable state and federal agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Easley Lester & Wells

July 18, 1996

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

NOTE 10 - LONG-TERM DEBT (Continued)

Minimum future lease payments under capital leases as of April 30, 1996, for each of the next five years and in the aggregate are:

<u>Year</u>	<u>Amount</u>
1997	\$ 14,772
1998	2,135
1999	<u>-0-</u>
Total minimum lease payments	16,907
Less amount representing interest	<u>(720)</u>
Present value of minimum lease payment	<u>\$ 16,187</u>

Following is a summary of tax-exempt bonds issued by the District to the Farmers Home Administration payable at April 30:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Bond obligation for construction improvements and equipment. This bond was made on May 11, 1993, with a maturity date May 11, 2023, calls for monthly payments of \$2,980, which includes principal and interest of 5.0% per annum. The bond is secured by an Act of Mortgage.	\$ 529,941	\$ 538,947	\$ 547,514
Less current maturities included in current installments of long-term debt	<u>(9,467)</u>	<u>(9,006)</u>	<u>(8,567)</u>
Long-term portion of bonds payable	<u>\$ 520,474</u>	<u>\$ 529,941</u>	<u>\$ 538,947</u>

Following are maturities of bonds payable for each of the next five years and thereafter as of April 30, 1996: 1997 - \$9,467; 1998 - \$9,951; 1999 - \$10,461; 2000 - \$10,996; 2001 - \$11,559; subsequent to 2001 - \$477,507.

Independent Auditors' Report on Internal Control
Structure Based on an Audit of General Purpose
Financial Statements Performed in Accordance with
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center") as of and for the years ended April 30, 1996, 1995 and 1994, and have issued our report thereon dated July 18, 1996.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Franklin Medical Center is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of Franklin Medical Center for the years ended April 30, 1996, 1995 and 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express an opinion.

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - FISCAL AND ADMINISTRATIVE
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Salaries	\$ 418,948	\$ 424,420	\$ 393,859
Physician recruitment	116,637	7,074	5,825
Legal and professional	62,891	64,139	66,300
Collection fees	47,346	52,358	33,104
Rent	16,437	15,676	19,147
Office supplies	71,938	61,568	61,405
Telephone	33,148	26,460	29,216
Travel	3,714	2,896	5,595
Dues and subscriptions	5,441	5,438	5,665
Repairs and maintenance	9,731	4,407	8,833
Sales tax and licenses	15,573	8,862	2,232
Other	<u>87,395</u>	<u>67,625</u>	<u>59,436</u>
 Total fiscal and administrative expense	 <u>\$ 889,199</u>	 <u>\$ 740,923</u>	 <u>\$ 690,617</u>

FRANKLIN MEDICAL CENTER
 OPERATING EXPENSES - GENERAL SERVICES (Continued)
 FOR THE YEARS ENDED APRIL 30, 1996, 1995 AND 1994

	1996	1995	1994
Total general services			
Salaries	\$ 542,985	\$ 494,275	\$ 465,402
Other	525,638	434,769	478,579
Total general services	\$ 1,068,623	\$ 929,044	\$ 943,981