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HOSPITAL SERVICE DISTRICT NUMBER ONE
OF THE
PARISH OF FRANKLIN, STATE OF LOUISIANA

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FRANKLIN MEDICAL CENTER

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GENERAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
APRIL 30, 1998, 1997, AND 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewers of the report, and other appropriate public officials. The report is available for public inspection at the State House office of the Legislative Auditor for 2008, where appropriate, at the office of the parish clerk of court.

Release Date 08/04/1998

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF FRANKLIN, STATE OF LOUISIANA
 ("FRANKLIN MEDICAL CENTER")
GENERAL PURPOSE FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 1996, 1997 AND 1998

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Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Wennerbo, 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, 1998, 1997 and 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose 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, 1998, 1997 and 1996, and the results of its operations, changes in fund balance, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated July 15, 1998, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

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

Erskine Lester & Wells

July 15, 2008

FRANKLIN MEDICAL CENTER
STATEMENTS OF OPERATIONS - UNRESTRICTED FUNDS
YEARS ENDED APRIL 30, 1998, 1997 AND 1996

	1998	1997	1996
Revenue			
Net patient service revenue (Note 11)	\$ 12,783,864	\$ 12,668,743	\$ 12,104,862
Gain (loss) on disposal of assets	0-	0-	4,380
Maintenance fees (Note 16)	0-	0-	34,855
Grants	45,403	25,000	50,714
Non-restricted contributions	\$	100	200
Other revenue	<u>223,958</u>	<u>180,858</u>	<u>171,178</u>
Total Revenue	13,053,225	12,772,701	12,365,968
Expenses			
Salaries	4,250,685	3,947,683	3,950,648
Benefits and payroll taxes	757,291	708,688	758,368
Pension plan (Note 14)	48,712	58,147	61,248
Supplies and drugs	860,688	793,000	799,462
Professional fees	2,108,673	2,348,283	2,311,684
Other expenses	2,843,299	2,843,428	2,488,207
Insurance	227,185	223,888	177,684
Interest expense	0-	2,894	28,784
Depreciation and amortization	558,803	558,128	512,808
Provision for bad debts	<u>637,805</u>	<u>681,891</u>	<u>618,688</u>
Total Expenses	12,583,831	11,981,499	11,555,831
Operating Income (Loss)	469,392	791,202	810,137
Non-Operating Income (Loss)			
Interest income	<u>189,932</u>	<u>159,418</u>	<u>147,371</u>
Excess of Revenue over Expenses	\$ 659,324	\$ 950,620	\$ 957,508

See accompanying notes to financial statements.

**FRANKLIN MEDICAL CENTER
BALANCE SHEETS - UNRESTRICTED FUND
APRIL 30, 1988, 1987 AND 1986**

	1988	1987	1986
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 863,781	\$ 903,288	\$ 1,234,839
Short-term investments	2,095,807	2,461,430	573,388
Accounts receivable, net of allowances for uncollectibles (Note 4)	2,388,571	1,934,387	2,668,180
Inventories	282,850	275,409	245,806
Prepaid expenses	102,805	107,832	158,213
Total Current Assets	<u>5,532,514</u>	<u>5,483,546</u>	<u>4,708,326</u>
Non-Current Assets			
Property, plant and equipment (Notes 5 and 6)	11,137,148	9,991,884	9,654,887
Accumulated depreciation	<u>(5,072,468)</u>	<u>(5,112,668)</u>	<u>(4,530,728)</u>
Net property, plant and equipment	6,064,680	4,879,216	5,024,159
Assets whose use is limited (Note 7)	<u>340,512</u>	<u>308,983</u>	<u>1,182,467</u>
Total Non-Current Assets	<u>6,405,192</u>	<u>5,629,209</u>	<u>6,206,626</u>
Total Assets	\$ 11,937,706	\$ 11,112,755	\$ 10,914,952
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	\$ 767,313	\$ 611,473	\$ 852,374
Accrued salary and payroll taxes	138,247	183,278	86,984
Accrued vacation payable (Note 8)	131,060	133,589	150,518
Current portion of long-term liabilities	<u>-0-</u>	<u>5,808</u>	<u>23,028</u>
Total Current Liabilities	<u>1,036,620</u>	<u>934,148</u>	<u>1,112,904</u>
Long-Term Liabilities			
Capital lease obligations (Note 9)	-0-	10,699	2,118
Bonds payable (Note 9)	<u>-0-</u>	<u>-0-</u>	<u>520,474</u>
Total Long-Term Liabilities	<u>-0-</u>	<u>10,699</u>	<u>522,592</u>
Total Liabilities	1,036,620	944,847	1,635,496
Contingencies (Note 12)	-	-	-
Fund Balance - Unrestricted	<u>10,901,086</u>	<u>10,167,908</u>	<u>9,279,456</u>
Total Liabilities and Fund Balance	\$ 11,937,706	\$ 11,112,755	\$ 10,914,952

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
 STATEMENTS OF CHANGES IN FUND BALANCE - UNRESTRICTED FUND
 YEARS ENDED APRIL 30, 1996, 1997 AND 1998

Balance, April 30, 1995	\$ 8,368,598
Excess of revenue over expenses for the year ended April 30, 1996	____ 850,328
Balance, April 30, 1996	9,218,926
Excess of revenue over expenses for the year ended April 30, 1997	____ 860,629
Balance, April 30, 1997	10,217,549
Excess of revenue over expenses for the year ended April 30, 1998	____ 826,123
Balance, April 30, 1998	<u>\$ 11,043,672</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS - UNRESTRICTED FUND
YEARS ENDED APRIL 30, 1995, 1994 AND 1993

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 480,182	\$ 791,202	\$ 810,057
Interest expense considered capital financing activity	-0-	2,004	38,764
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	508,780	508,128	512,528
Provision for bad debts	837,595	951,995	475,568
(Gain) or loss on disposal of assets	-0-	-0-	(4,280)
Changes in current assets (increase) decrease			
Accounts receivable	(1,302,109)	(168,176)	(1,022,899)
Inventories	(7,251)	(29,804)	(18,855)
Prepaid expenses	5,437	41,852	(23,589)
Short-term investments	365,831	(1,081,950)	(184,990)
Changes in current liabilities, increase (decrease)			
Accounts payable and accrued expenses	158,839	(293,801)	363,429
Accrued salary and payroll taxes	31,572	5,371	25,194
Accrued vacation payable	12,492	(79,928)	29,318
Net cash provided (used) by operating activities	<u>1,134,899</u>	<u>(186,154)</u>	<u>1,083,495</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash proceeds from certificates of deposit invested for assets whose use is limited	-0-	382,424	80,543
Limited certificates of deposit invested for assets whose use is limited	(143,089)	-0-	-0-
Interest earned	<u>188,837</u>	<u>159,416</u>	<u>147,371</u>
Net cash provided (used) by investing activities	<u>\$ 56,578</u>	<u>\$ 531,740</u>	<u>\$ 227,914</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS - UNRESTRICTED FUND (Continued)
YEARS ENDED APRIL 30, 1995, 1997 AND 1998

	1998	1997	1996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of building and equipment	\$ (1,145,264)	\$ (430,197)	\$ (1,430,606)
Proceeds from disposal of equipment	0-	0-	4,280
Principal paid on long-term debt	(15,000)	(247,028)	(35,435)
Interest paid on long-term debt	<u>0-</u>	<u>(2,004)</u>	<u>(28,764)</u>
Net cash provided (used) by capital and related financing activities	(1,160,184)	(684,229)	(1,489,525)
Net increase (decrease) in cash	29,799	(601,641)	(222,148)
Beginning cash and cash equivalents	<u>623,268</u>	<u>1,224,909</u>	<u>1,447,056</u>
Ending cash and cash equivalents	\$ <u>653,167</u>	\$ <u>623,268</u>	\$ <u>1,224,909</u>
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for interest	\$ <u>0-</u>	\$ <u>2,004</u>	\$ <u>28,764</u>

The Hospital entered into a capital lease obligation of \$15,800 for equipment in 1997.

See accompanying notes to financial statements.

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1988, 1987 AND 1986**

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, 1955.

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 5. 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 1988, 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 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
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1998, 1997 AND 1996

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
APRIL 30, 1998, 1997 AND 1996

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	20 to 40 years
Machinery and equipment	5 to 30 years
Furniture and fixtures	5 to 10 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
APRIL 30, 1998, 1997 AND 1996

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. For all deposits, the market value and carrying value are the same.

The District's investment policy requires excess funds to be invested in certificates of deposit (secured by federal depository insurance or pledges of state or federal securities) of the highest available interest rate obtained from three competing banks in Franklin Parish, Louisiana. At April 30, 1997, the bank balance for cash in checking accounts exceeded said security by \$152,913.

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

	1998	1997	1996
Cash	\$ 306,000	\$ 199,069	\$ 88,242
Certificates of deposit	<u>347,283</u>	<u>433,439</u>	<u>1,538,697</u>
Total	<u>\$ 653,283</u>	<u>\$ 632,508</u>	<u>\$ 1,626,939</u>

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 APRIL 30, 1998, 1997 AND 1996

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	1998	1997	1996
Patients	\$ 2,836,743	\$ 2,875,841	\$ 3,952,884
Medicare program	331,884	(48,741)	277,288
Medicaid program	93,358	110,884	218,846
Other	<u>79,998</u>	<u>121,238</u>	<u>108,281</u>
Total	3,250,571	3,836,142	4,768,442
Estimated allowances for uncollectibles	..(860,080)	..(901,775)	..(1,254,262)
Net accounts receivable	\$ 2,390,571	\$ 1,934,367	\$ 3,514,180

During 1998 a rate which exempts rural hospitals with under 60 beds from a target amount per discharge limitation for purposes of Medicaid reimbursement was approved retroactive to November 1991. This resulted in \$201,396 of income from those periods to be reported in 1998.

In June 1997, the State of Louisiana enacted legislation to provide funds to small rural hospitals, which met certain criteria. The District received reimbursement of \$277,804 for its uncompensated cost, related to its year ended April 30, 1996. That reimbursement was reported as income in the year ended April 30, 1998, and is subject to audit and retroactive adjustment.

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, 1998, 1997 and 1996, follows:

	1998	1997	1996
Medicare patients	\$ 11,558,133	\$ 10,048,915	\$ 10,785,284
Medicaid patients	<u>2,473,301</u>	<u>2,012,977</u>	<u>2,120,098</u>
Total	\$ 14,029,273	\$ 14,291,292	\$ 12,905,322
Percent of all patients	22%	21%	22%

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1988, 1987 AND 1986

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	Property, Plant and Equipment 1988			
	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	3,034,800	-0-	-0-	3,034,800
Leasehold improvements	1,485,627	39,370	-0-	1,524,997
Furniture and equipment	4,382,938	489,848	-0-	4,872,786
Construction in progress	1,022	637,071	1,022	637,071
Totals	\$ 9,083,887	\$ 1,166,289	\$ 1,022	\$11,127,165

	Accumulated Depreciation 1988			
	Beginning Balance	Additions	Dispositions	Ending Balance
Buildings	\$ 1,790,089	\$ 101,408	\$ -0-	\$ 1,891,497
Leasehold improvements	395,208	90,138	-0-	485,346
Furniture and equipment	2,823,689	388,151	-0-	3,211,840
Totals	\$ 4,910,986	\$ 569,702	\$ -0-	\$ 5,480,688

	Property, Plant and Equipment 1987			
	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 27,500	\$ 150,000	\$ -0-	\$ 177,500
Buildings	3,034,800	-0-	-0-	3,034,800
Leasehold improvements	1,387,800	118,127	-0-	1,505,927
Furniture and equipment	4,211,820	181,315	-0-	4,393,135
Construction in progress	13,487	1,022	13,487	1,022
Totals	\$ 8,304,407	\$ 350,442	\$ 13,487	\$ 8,691,362

FRANK, IN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 APRIL 30, 1996, 1997 AND 1998

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Beginning Balance	Accumulated Depreciation 1997		Ending Balance
		Additions	Dispositions	
Buildings	\$ 1,599,392	\$ 181,491	\$ -0-	\$ 1,780,883
Leasehold improvements	313,984	84,216	-0-	398,200
Furniture and equipment	2,527,353	369,252	-0-	2,896,605
Totals	\$ 4,439,729	\$ 544,959	\$ -0-	\$ 4,884,688

	Beginning Balance	Property, Plant and Equipment 1996		Ending Balance
		Additions	Dispositions	
Land	\$ 37,500	\$ -0-	\$ -0-	\$ 37,500
Buildings	2,987,049	967,781	-0-	3,954,830
Leasehold improvements	1,295,801	71,029	-0-	1,366,830
Furniture and equipment	3,175,921	1,068,629	23,821	4,215,870
Construction in progress	820,118	308,154	263,805	134,467
Totals	\$ 8,116,389	\$ 2,404,224	\$ 287,626	\$ 9,554,887

	Beginning Balance	Accumulated Depreciation 1996		Ending Balance
		Additions	Dispositions	
Buildings	\$ 1,604,293	\$ 85,096	\$ -0-	\$ 1,689,389
Leasehold improvements	234,288	79,716	-0-	313,984
Furniture and equipment	2,158,893	331,462	-0-	2,527,353
Totals	\$ 4,034,434	\$ 496,274	\$ -0-	\$ 4,530,728

Included in furniture and equipment are physician's office furnishings and medical equipment with a cost of \$29,800. The District has agreed to transfer these assets in 1999 to physicians if the conditions of the physicians' retirement contracts are met.

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 APRIL 30, 1988, 1987 AND 1986

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 20, 1982, 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.

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

Cost or Fair Market Value on the Date of Creation	1988	1987	1986
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,900	1,842,900	1,842,900
Furniture and equipment	___ 188,718	___ 188,718	___ 188,718
Total	2,059,118	2,059,118	2,059,118
Accumulated Depreciation			
Buildings	1,434,874	1,388,934	1,384,995
Furniture and equipment	___ 188,718	___ 188,718	___ 188,718
Total	1,623,592	1,588,652	1,583,713
Book value of property, plant and equipment	<u>\$ 435,526</u>	<u>\$ 470,466</u>	<u>\$ 505,405</u>

These assets were obtained in part with funds from a Hill-Burton program grant of \$783,044. 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. 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:

	1988	1987	1986
Capital improvements	\$ 343,435	\$ 328,027	\$ 310,689
Debt retirement	-	-	487,280
Contingencies	370,384	358,543	344,182
Self-insured unemployment fund	___ 229,290	___ 217,470	___ 150,359
Total	<u>\$ 943,112</u>	<u>\$ 908,040</u>	<u>\$ 1,302,460</u>

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1998, 1997 AND 1996**

NOTE 8 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$131,050, \$133,566 and \$150,518 of vacation pay at April 30, 1998, 1997 and 1996, 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 9 - LONG-TERM DEBT

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

	1998	1997	1996
Lease purchase obligation to Gilcoep North America, Inc., for anesthesia machine, computer equipment and a patient monitoring system. The contract made on June 25, 1982, with a maturity date of June 25, 1987, calls for monthly payments of \$1,087.51, which included principal and interest of 7.48% per annum. Secured by the equipment with a book value of \$7,561 as of April 30, 1997.	\$ -0-	\$ -0-	\$ 14,269
Lease purchase obligation to Xerox Corporation for a copier. The contract made on December 1, 1983, with a maturity date of November 30, 1989, calls for monthly payments of \$176.95, which includes principal and interest of 8.90% per annum. Secured by the copier with a book value of \$2,476 as of April 30, 1997.	-0-	-0-	1,916
Capital lease obligation to Abbott Laboratories for six PCA pumps. The contract made on March 5, 1997, with a maturity date of February 28, 1999, calls for monthly payments of \$450.00, which includes principal and interest of 9.00% per annum. Secured by the 6 PCA pumps with a book value of \$16,526 as of April 30, 1997.	-0-	15,900	-0-
Total capital leases payable	-0-	15,900	16,185
Less current portion of capital leases payable	-0-	(3,400)	(14,022)
Long-term portion of capital leases payable	\$ -0-	\$ 12,500	\$ 2,163

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1996, 1997 AND 1998**

NOTE 9 - LONG-TERM DEBT (Continued)

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

	1996	1997	1998
Bond obligation for construction improvements and equipment. This bond was made on May 11, 1983, with a maturity date of May 11, 2023, and calls for monthly payments of \$2,988, which includes principal and interest of 5.0% per annum. The bond is secured by an Act of Mortgage.	\$ -0-	\$ -0-	\$ 520,041
Less current maturities included in current installments of long-term debt:	<u>-0-</u>	<u>-0-</u>	<u>(8,467)</u>
Long-term portion of bonds payable	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>511,574</u>

On May 1, 1998, the District paid \$520,041 to retire all of its bonds payable.

NOTE 10 - CHARITY CARE

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone 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, 1997 and 1998.

	1996	1997	1998
Charges forgone, based on established rates	\$ <u>17,154</u>	\$ <u>26,054</u>	\$ <u>15,827</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>10,789</u>	\$ <u>14,627</u>	\$ <u>10,010</u>
Equivalent percentage of charity care patients to all patients served	<u>.10%</u>	<u>.14%</u>	<u>.09%</u>

NOTE 11 - 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

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1986, 1987 AND 1988

NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

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 examined by the Medicare fiscal intermediary through April 30, 1988. Swing bed routine services are reimbursed based on a prospectively determined rate per patient day and other services including home health and geriatric psychiatry are reimbursed based upon a cost reimbursement methodology (with home health being subject to limits on a cost per visit basis and geriatric psychiatry being subject to a target amount per discharge).

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate (subject to a maximum per patient for inpatient services). Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

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 examined by the Medicaid fiscal intermediary through April 30, 1988.

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.

NOTE 12 - 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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1995, 1997 AND 1998

NOTE 12 - PROFESSIONAL LIABILITY RISK (Continued)

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 exposures. At policy year-end, premiums are redetermined utilizing actual losses and expenses of the fund. Each year's retrospective assessment, if any, may not exceed the District's premium due during such plan year. The trust fund presumes to be a "Director Trust" and, accordingly, income and expenses are pro-rated to member hospitals. The District has not included these allocations or equity in the fund in its financial statements which reflect cash transactions with the trust fund as insurance expense or a reduction thereof.

NOTE 13 - 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) - Third party reimbursements are subject to examination by agencies administering the programs. Under those programs, the District receives fixed fees for each patient. The District is contingently liable for retrospective adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retrospective changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1998, 1997 AND 1996

NOTE 13 - CONTINGENCIES (Continued)

Professional Liability Risk (Note 12) - 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.

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 \$289,708. The trust pays off 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, 1998, 1997 and 1996 was \$46,432, \$9,780 and \$29,270, respectively. These amounts were accrued as a current liability at April 30.

Self-insured for Unemployment Compensation - Effective January 1, 1995, the District elected to become self-insured for unemployment compensation. The District is contributing 2.68% of the payroll into a fund (Note 7) 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 two lawsuits in which the attorney believes the District should prevail.

The District's management is aware that many older computer systems are unable to handle dates on or after January 1, 2000, causing existing equipment and software to be obsolete. The District's management is addressing the need and cost for upgrades and/or replacements with department heads and vendors. The cost of upgrades and/or replacements for all other computer hardware or software cannot be reasonably estimated at this time. The ability of outside organizations to deal with this problem could have a financial impact on the District. The cost of this outside impact cannot be reasonably estimated at this time.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1998, 1997 AND 1996

NOTE 14 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by Delaware Charter Guarantees and Trust Company 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 can elect to contribute up to 22% of their annual salaries and the District matches the first 3% of the employees contributions. Actual contributions made by the District for the years ended April 30, 1998, 1997 and 1996 were \$48,712, \$55,147 and \$51,340, respectively.

NOTE 15 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 1998:

Jack Harrison, Chairman
Tom Keanigan, Vice Chairman
Lantz Wornick
Rebecca Singleton
Joe M. Gravelle

NOTE 16 - MAINTENANCE TAXES

On April 27, 1998, the District elected not to renew the annual maintenance tax.

SUPPLEMENTAL INFORMATION

FRANKLIN MEDICAL CENTER
SCHEDULE OF PATIENT STATISTICS
YEARS ENDED APRIL 30, 1995, 1997 AND 1998

	1995	1997	1998
Number of Patient Days of Care			
Medicare	8,958	10,744	10,529
Medicaid	2,148	2,038	2,285
Other	<u>1,168</u>	<u>1,033</u>	<u>1,244</u>
Total	<u>12,274</u>	<u>13,815</u>	<u>13,958</u>
Number of Patient Discharges			
Medicare	1,567	1,567	1,580
Medicaid	581	584	485
Other	<u>385</u>	<u>374</u>	<u>513</u>
Total	<u>2,533</u>	<u>2,525</u>	<u>2,578</u>
Average Length of Patient Stay			
Medicare	5.8	6.7	6.8
Medicaid	3.7	3.8	4.8
Other	3.0	2.8	2.4
All Patients	4.9	5.4	5.4
Number of Surgical Cases	<u>842</u>	<u>787</u>	<u>872</u>
Number of Emergency Room Visits	<u>10,854</u>	<u>9,880</u>	<u>10,524</u>

FRANKLIN MEDICAL CENTER
SCHEDULE OF NET PATIENT SERVICE REVENUE
YEARS ENDED APRIL 30, 1998, 1997 AND 1996

	1998	1997	1996
Daily patient services:			
Routine services	\$ 1,556,215	\$ 1,510,130	\$ 1,504,585
Inpatient care	270,773	326,989	323,750
Physician	1,803,395	2,526,990	2,458,050
Total daily patient services	2,430,415	4,364,109	4,286,385
Other professional services:			
Operating room			
Inpatient	126,515	111,699	121,635
Outpatient	308,690	274,324	184,662
Total operating room	435,205	386,023	306,297
Anesthesia			
Inpatient	165,138	167,010	177,080
Outpatient	164,662	166,899	178,662
Total anesthesia	329,800	333,909	355,742
Recovery room			
Inpatient	15,439	14,174	15,897
Outpatient	25,155	21,191	27,824
Total recovery room	40,594	35,365	43,721
Pharmacy			
Inpatient	2,624,856	2,459,634	2,285,000
Outpatient	524,503	257,565	282,881
Total pharmacy	3,149,359	2,717,199	2,567,881
Respiratory care			
Inpatient	1,769,721	1,683,419	1,344,135
Outpatient	43,806	26,878	31,869
Total respiratory care	1,813,527	1,710,297	1,376,004
Emergency room			
Inpatient	74,620	85,400	67,330
Outpatient	369,956	313,390	297,850
Total emergency room	\$ 444,576	\$ 398,790	\$ 365,180

FRANKLIN MEDICAL CENTER
SCHEDULE OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED APRIL 30, 1996, 1997 AND 1998

	1996	1997	1998
(Other professional services (Continued))			
Emergency room physicians			
Inpatient	\$ 144,132	\$ 154,941	\$ 155,877
Outpatient	___ 597,886	___ 589,590	___ 542,190
Total emergency room physicians	___ 742,018	___ 730,531	___ 698,067
Central supply			
Inpatient	1,893,108	2,194,801	1,694,917
Outpatient	___ 411,366	___ 335,749	___ 372,369
Total central supply	___ 2,274,454	___ 2,440,550	___ 2,386,486
Laboratory			
Inpatient	653,678	749,004	830,424
Outpatient	___ 368,284	___ 382,891	___ 330,036
Total laboratory	___ 3,030,123	___ 3,131,895	___ 3,130,460
Blood			
Inpatient	39,518	39,778	39,518
Outpatient	___ 5,467	___ 1,630	___ 5,008
Total blood	___ 48,523	___ 40,008	___ 44,526
EKG			
Inpatient	213,628	205,462	217,440
Outpatient	___ 170,688	___ 189,462	___ 175,926
Total EKG	___ 384,187	___ 391,644	___ 333,366
Ambulance			
Inpatient	4,480	3,049	1,036
Outpatient	___ 48,640	___ 27,783	___ 12,017
Total ambulance	___ 53,900	___ 30,832	___ 13,053
Radiology			
Inpatient	421,592	444,282	498,941
Outpatient	___ 628,281	___ 598,987	___ 593,036
Total radiology	\$ 1,089,163	\$ 1,029,479	\$ 1,351,937

FRANKLIN MEDICAL CENTER
SCHEDULE OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED APRIL 30, 1998, 1997 AND 1996

Other professional services (Continued)	1998	1997	1996
Ultrasound			
Inpatient	\$ 14,677	\$ 17,408	\$ 19,789
Outpatient	____ 24,048	____ 20,478	____ 19,421
Total ultrasound	____ 38,725	____ 37,886	____ 39,210
CT scan			
Inpatient	369,483	351,058	374,431
Outpatient	____ 288,882	____ 224,987	____ 220,732
Total CT scan	____ 658,365	____ 576,045	____ 595,163
Nuclear medicine			
Inpatient	31,890	34,329	32,193
Outpatient	____ 47,893	____ 58,043	____ 45,680
Total nuclear medicine	____ 79,783	____ 92,372	____ 77,873
Physical therapy			
Inpatient	43,237	51,104	88,220
Outpatient	____ -0-	____ 3,495	____ 54,231
Total physical therapy	____ 43,237	____ 54,599	____ 142,451
Home health services	517,500	1,019,198	988,416
Oncology - outpatient	27,452	721	-0-
Partial-day psychiatric program	889,200	347,120	-0-
Transportation	____ 8,252	____ 20,412	____ 54,273
Total other professional services	14,341,809	13,271,330	12,421,296
Total patient service revenue	17,790,313	17,436,260	16,899,950
Deductions from revenue:			
Contractual allowance	5,256,581	5,036,332	4,680,359
Uncompensated cost reimbursement	(277,894)	-0-	-0-
Policy discounts and charity care	____ 17,189	____ 42,185	____ 43,213
Total deductions from revenue	4,995,876	5,078,517	4,723,672
Net patient service revenue	\$12,794,437	\$12,357,743	\$12,176,278

FRANKLIN MEDICAL CENTER
 SCHEDULE E OF OTHER OPERATING REVENUE
 YEARS ENDED APRIL 30, 1996, 1997 AND 1998

	1998	1997	1996
Cafe/terrace sales	\$ 44,780	\$ 48,040	\$ 45,758
Vending machine commission	2,088	3,179	3,704
Physician office rentals	109,116	107,042	115,623
Medical records abstract fees	8,919	8,347	6,000
Miscellaneous interest	1,172	284	589
	<u>\$ 267,065</u>	<u>\$ 266,892</u>	<u>\$ 271,674</u>

FRANKLIN MEDICAL CENTER
SCHEDULE OF OPERATING EXPENSES - SALARIES AND BENEFITS
YEARS ENDED APRIL 30, 1988, 1987 AND 1986

	1988	1987	1986
Personnel	\$ 29,007	\$ 29,051	\$ 21,580
Administration	588,300	478,947	471,268
Plant operations and maintenance	188,719	169,389	171,878
Laundry	8,586	23,589	38,826
Housekeeping	166,669	136,303	124,699
Dietary & cafeteria	225,288	147,755	186,681
Nursing administration	180,261	111,403	124,688
Central supply	12,775	11,814	11,873
Pharmacy	167,878	151,876	162,912
Medical records	69,430	59,198	63,530
Medical records	1,236,811	1,109,284	1,142,219
Nursing services, acute care	357,114	357,037	359,878
Nursing services, intensive care unit	49,857	-	-
Nursing services, psychiatric unit	134,920	149,278	142,487
Operating room	4,828	4,800	4,808
Anesthesiology	173,581	168,889	168,799
Radiology	107,698	101,712	168,345
Respiratory care	40,673	-	-
Oncology	298,698	227,932	218,033
Emergency room	376,204	328,198	382,168
Home health	34,851	32,852	53,945
Transportation	-	-	-
Total salaries	4,256,685	3,947,682	3,958,646
Payroll taxes	316,738	296,034	291,649
Hospital insurance	177,512	183,161	286,214
Other	48,609	158,871	80,341
Total benefits	532,869	638,066	658,214
Total salaries and benefits	\$ 4,889,554	\$ 4,685,748	\$ 4,616,860

FRANKLIN MEDICAL CENTER
SCHEDULE OF OPERATING EXPENSES - PROFESSIONAL FEES
YEARS ENDED APRIL 30, 1998, 1997 AND 1996

	1998	1997	1996
Anesthesiology	\$ 142,884	\$ 138,872	\$ 154,718
Psychiatric unit	257,016	234,150	215,433
Radiology	258,880	323,071	303,189
Laboratory	608,050	557,269	574,324
Physical therapy	42,438	64,114	72,709
EKG	14,130	14,650	15,659
Emergency room	688,852	815,275	774,713
Home health	<u>420</u>	<u>1,142</u>	<u>126</u>
Total professional fees	<u>\$ 2,168,672</u>	<u>\$ 2,348,582</u>	<u>\$ 2,311,684</u>

FRANKLIN MEDICAL CENTER
SCHEDULE OF OPERATING EXPENSES - OTHER EXPENSES
YEARS ENDED APRIL 30, 1998, 1997 AND 1996

	1998	1997	1996
Management fees	\$ 845,308	\$ 894,324	\$ 844,327
Miscellaneous service fees	298,434	252,188	104,887
Legal and accounting	38,247	32,374	48,414
Supplies	895,777	718,975	711,850
Minor equipment	25,828	38,064	48,244
Repairs and maintenance	109,188	108,840	82,437
Utilities	208,088	213,884	188,312
Telephones	47,885	47,885	43,302
Taxes	48,881	48,487	48,798
Rentals	42,123	28,417	14,548
Education	24,435	28,379	35,074
Dues and subscriptions	38,719	25,123	14,857
Recruitment and advertising	17,334	18,790	182,871
Miscellaneous	<u>88,281</u>	<u>188,857</u>	<u>120,422</u>
Total other expenses	<u>\$ 2,643,302</u>	<u>\$ 2,643,428</u>	<u>\$ 2,486,322</u>

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

To the Board of 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, a component unit of the Franklin Parish Police Jury, ("Franklin Medical Center") as of and for the years ended April 30, 1999, 1997 and 1995, and have issued our report thereon dated July 15, 1998. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Franklin Medical Center's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that are required to be reported under Government Auditing Standards. As required by the Legislative Auditor, we have also attached a summary of the prior year's management letter along with statements as to the resolution of each comment.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. As required by the Legislative Auditor, we have also attached a summary of the prior year's management letter along with statements as to the resolution of each comment.

Hospital Service District No. 1
Parish of Franklin
Warrington, La
Page Two

This report is intended for the information of the Board of Commissioners and all applicable state and federal agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Easley, Lester & Wells".

July 15, 1988

FRANKLIN MEDICAL CENTER
REPORTABLE NONCOMPLIANCE
YEAR ENDED APRIL 30, 1998

Corporate Compliance Plan

Condition: In an open letter to Medicare and Medicaid providers and in numerous public statements, the U. S. Health and Human Services Inspector General and others in her office have made it clear that such providers should (but are not required) establish corporate compliance programs.

The Office of Inspector General ("OIG") generally has taken the position that indifference (a failure to pro-actively maintain a system to avoid errors) that result in violations is similar to intentional violations and that lack of knowledge is not a defense. The OIG has stated that when it finds a violation it will make every effort to enforce the maximum penalty when corporate compliance plan is not in place. When such a plan is in place (and actually working in the daily operations as opposed to being a document on a shelf), it has stated that it will give consideration to the providers efforts to avoid violations.

The OIG recommends that such a plan include specifics in the following general areas:

1. Assignment of oversight responsibility to an individual high in the corporate structure.
2. Establishment of due care in the delegation of authority.
3. Conducting effective training and educational programs.
4. Utilization of monitoring and auditing to detect non-compliance.
5. Development of effective lines of communication for reporting of violations (including a hot line for anonymous reporting) and clarification of policy.
6. Enforcement of standards through well-publicized discipline guidelines and procedures.
7. Immediate and appropriate response to detected offenses and prevention of further offenses through systematic changes and corrective action initiatives.

The Board adopted its corporate compliance program on January 29, 1998. The District is in the process of implementing the program.

Recommendation: Since a financial statement audit is not designed to examine many of these areas (i.e. fair market value of transactions with physicians, proper billing), we recommend that the District ensure that its program includes a compliance audit of its operations to determine possible violations and that they be corrected. Further, the program should include procedures to ensure that the program becomes a part of daily operations.

Response: The District will continue to develop its compliance plan.

FRANKLIN MEDICAL CENTER
REPORTABLE NONCOMPLIANCE
YEAR ENDED APRIL 30, 1997

- Finding:** We discovered the District made nursing home bed reservation payments in order to guarantee patients a bed after discharge from the hospital.
- Recommendation:** We recommend obtaining legal opinion as to whether this practice is permitted.
- Response:** The District has chosen to discontinue paying for nursing home bed reservations.
- Resolution:** This recommendation was partially resolved. While the District did not obtain legal opinion, all payments to nursing homes were discontinued.
- Finding:** The District has entered into a capital lease agreement which does not contain a non-appropriation clause.
- Recommendation:** We recommend either obtaining an addendum to the lease agreement for the non-appropriation clause or obtaining State Bond Commission approval.
- Response:** The recommendation will be implemented.
- Resolution:** This matter has been resolved.
- Finding:** The District's pledged securities to cover deposits in excess of the FDIC limits were less than the funds held by banks (bank balance but not general ledger balance) at the balance sheet date. It was noted that the balances were not being monitored to insure that adequate pledged securities were on hand.
- Recommendation:** We suggest monitoring the deposits for adequate security on routine basis.
- Response:** The District will monitor the deposits.
- Resolution:** This matter has been resolved.

FRANKLIN MEDICAL CENTER
REPORTABLE INTERNAL CONTROLS
YEAR ENDED APRIL 30, 1987

INTERNAL CONTROLS

Segregation 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 implementing segregation of duties to the extent possible.
- Response:** The District will review employee's duties and improve the segregation of duties to the extent financially feasible.
- Resolution:** This matter has been resolved.

Property, Plant and Equipment

- Finding:** We noted that equipment additions were not tagged with the District's property tag.
- Recommendation:** We recommend tagging all equipment purchases to help safeguard assets as well as performing a routine inspection of assets.
- Response:** The recommendation will be implemented.
- Resolution:** This matter has been resolved.

Late Payment Fees

- Finding:** We discovered that late payment fees were paid on the settlements of the Hill Rom beds although all payments were made timely.
- Recommendation:** We recommend contacting Hill Rom and requesting a refund of the late payment fees.
- Response:** After the auditors disclosed the problem, the District contacted Hill Rom and they issued a refund check for \$12,348.12.
- Resolution:** This matter has been resolved.

Payroll

- Finding:** We noted that a few employees were paid for 80 hours when the actual time reported was less.
- Recommendation:** We recommend paying employees only for actual time worked.
- Response:** The recommendation will be implemented.
- Resolution:** This matter has been resolved.