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HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, La.

Years Ended September 30, 1997 and 1998

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OTHER MATTERS

compliance  
Internal Control

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.

Release Date 4-15-98

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INCORPORATED IN U.S.A.

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Independent Auditor's Report

Board of Commissioners  
Hospital Service District No. 1  
of St. Mary Parish  
Franklin Foundation Hospital  
Franklin, Louisiana

We have audited the accompanying balance sheets of Franklin Foundation Hospital, Inc., Hospital Service District No. 1 of St. Mary Parish as of September 30, 1997 and 1998, and the related statements of revenue and expense, changes in fund balances, and cash flows for the years then ended. We have also audited the accompanying balance sheet of Franklin Imaging, Inc. as of September 30, 1997 and the related statements of revenue and expense, retained earnings, and cash flows for the nine months then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and ~~Comptroller's 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 audit provides 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 Foundation Hospital, Inc., Hospital Service District No. 1 of St. Mary Parish as of September 30, 1997 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles; and the financial position of Franklin Imaging, Inc., and the results of its operations and the cash flows for the nine months then ended in conformity with generally accepted accounting principles.

*Dressel & Friend*

DRESSEL & FRIEND  
NEW ORLEANS, LA

February 18, 1998

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE BALANCE SHEETS	SEPTEMBER 30, 1997 WITH			
	COMPARATIVE FIGURES FOR 1996			
	UNRESTRICTED FUNDS	CURRENT	PREOR	
	ASSETS	YEAR	YEAR	
<b>CURRENT ASSETS</b>				
Cash	\$	8,743	\$ 40,545	
Investments-Cash		114,899	24,388	
Accounts Receivable				
Less: Estimated Uncollectibles				
and Allowance of \$1,823,128 in				
1997 and 2073,689 in 1996		1,780,834	1,799,628	
Other Receivables		9,696	22,387	
Due from Medicare		-	246,881	
Due from Department of Health &				
Human Resources		-	1,103,041	
Investments		488,216	483,482	
Prepaid Expenses		<u>126,284</u>	<u>80,282</u>	
<b>TOTAL CURRENT ASSETS</b>	\$	2,485,170	\$ 3,454,233	
<b>INVESTMENTS</b>				
	\$	(86,407)	\$ (127,385)	
<b>PROPERTY, PLANT, AND EQUIPMENT</b>				
	\$11,719,427	\$11,257,739		
Less: Accumulated Depreciation	<u>7,813,313</u>	<u>6,803,332</u>		
<b>NET PROPERTY, PLANT &amp; EQUIPMENT</b>	\$	3,906,114	\$	4,454,406
<b>CORR. ASSETS</b>				
		<u>124,848</u>	<u>124,848</u>	
<b>TOTAL ASSETS</b>		<u>\$ 7,521,523</u>	<u>\$ 8,135,121</u>	
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Obligations Under Capital Leases	\$	80,951	\$ 145,971	
Notes Payable		144,826	-	
Loans Payable-Merchants National Bank		-	293,080	
Due to Medicare		50,419	-	
Due to Department of Health & Human Resources		94,096	-	
Accounts Payable		825,226	1,426,988	
Accrued Compensated Absences		152,827	128,627	
Accrued Expenses		<u>282,325</u>	<u>228,824</u>	
<b>TOTAL CURRENT LIABILITIES</b>	\$	1,497,785	\$ 2,203,601	
<b>LONG-TERM LIABILITIES</b>				
Loans Payable-St. Mary Parish Council	\$	152,229	\$ 373,308	
Notes Payable		142,822	-	
Obligations Under Capital Leases		<u>56,222</u>	<u>142,222</u>	
<b>TOTAL LONG-TERM LIABILITIES</b>	\$	<u>348,222</u>	<u>\$ 515,522</u>	
<b>TOTAL LIABILITIES</b>	\$	1,847,007	\$ 2,719,123	
<b>FUND BALANCE (EXHIBIT 12)</b>		<u>5,674,516</u>	<u>5,415,998</u>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<u>\$ 7,521,523</u>	<u>\$ 8,135,121</u>	

The accompanying notes and accountant's report are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

SEPTEMBER 30, 1987 with  
COMPARATIVE FIGURES FOR 1986

COMPARATIVE BALANCE SHEET

<u>RESTRICTED FUNDS</u>			
	<u>ASSETS</u>	<u>CURRENT</u>	<u>PERIOD</u>
		<u>1987</u>	<u>1986</u>
<b>SPECIFIC PURPOSE FUNDS:</b>			
<b>BONDS SINKING FUND</b>			
Cash	\$ 697,188	\$ 698,988	
Original Issue Discount	43,683	58,483	
Bond Issue Costs	<u>18,123</u>	<u>31,680</u>	
TOTAL	\$ 758,994	\$ 809,151	
<b>BONDS PAYABLE FUND</b>			
Amount Available for Retirement of Bonds	\$ 697,188	\$ 598,988	
Amount to be Provided from Tax Revenues	<u>112,899</u>	<u>719,088</u>	
TOTAL	<u>\$ 1,218,088</u>	<u>\$ 1,318,088</u>	
<b>TOTAL SPECIFIC PURPOSE FUNDS</b>	<u><b>\$ 1,977,082</b></u>	<u><b>\$ 2,127,239</b></u>	
<b>LIABILITIES AND FUND BALANCE</b>			
<b>SPECIFIC PURPOSE FUNDS:</b>			
<b>BONDS SINKING FUND</b>			
Unpaid Interest Payable	\$ 6,380	\$ 7,018	
Fund Balance (Exhibit III)	<u>781,532</u>	<u>818,988</u>	
TOTAL	\$ 787,912	\$ 826,006	
<b>BONDS PAYABLE FUND</b>			
Bonds Payable-Series 1991-Current	\$ 180,000	\$ 180,000	
Bonds Payable-Series 1991-Long Term	<u>1,830,800</u>	<u>1,218,088</u>	
TOTAL	<u>\$ 2,010,800</u>	<u>\$ 1,398,088</u>	
<b>TOTAL SPECIFIC PURPOSE FUNDS</b>	<u><b>\$ 2,800,712</b></u>	<u><b>\$ 2,224,094</b></u>	

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HOSPITAL SERVICE DISTRICT NO. 3  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES	YEAR ENDED SEPTEMBER 30, 1987	
	WITH COMPARATIVE FIGURES FOR 1986	
	CURRENT YEAR	PREVIOUS YEAR
<b>Patient service revenue</b>		
Inpatient revenue	\$ 8,838,419	\$ 8,884,428
Outpatient revenue	8,188,481	8,987,428
Clinic revenue	1,432,390	1,831,442
Sewing Bed revenue	428,431	560,527
Rehabilitation revenue	<u>4,486,868</u>	<u>2,888,372</u>
Total patient service revenue	17,134,589	12,152,197
<b>Other revenue</b>	<u>438,852</u>	<u>383,854</u>
Total gross revenue	17,573,441	12,536,051
<b>Deductions from gross revenue</b>		
Contractual adjustments	\$ 7,487,852	\$ 8,308,548
Other	<u>481,852</u>	<u>518,532</u>
Total deductions from gross revenue	7,969,704	8,827,080
Net revenue	9,603,737	3,708,971
<b>Operating expenses</b>		
Salaries & wages	\$ 4,883,588	\$ 5,381,778
Benefits	868,850	870,413
Fees-physicians	888,820	781,378
Fees-other	1,968,882	2,895,850
Supplies	2,187,884	1,782,814
Utilities	368,734	377,413
Repairs & maintenance	318,880	381,458
Leases & rentals	98,981	328,700
Insurance	234,384	228,519
Interest expense	38,488	38,332
Other expenses	125,347	82,862
Bad debts	<u>327,464</u>	<u>282,232</u>
Total operating expenses before depreciation	11,787,331	12,152,197
Depreciation	<u>488,283</u>	<u>482,438</u>
Total operating expenses	12,275,614	12,634,635
Loss from operations	\$ 2,671,877	\$ 8,925,664

The accompanying notes and accountant's report are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 2  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES	YEAR ENDED SEPTEMBER 30, 1997	
	WITH COMPARATIVE FIGURES FOR 1996	
	CURRENT YEAR	PREVIOUS YEAR
Non-operating revenues (losses)		
Tax revenue	\$ 444,701	\$ 598,144
Other	20,918	12,459
Income from investment in subsidiary	<u>28,812</u>	<u>8,112</u>
Total non-operating revenues	\$ <u>494,431</u>	\$ <u>618,715</u>
Excess of revenue over fundal expenses before extraordinary item	\$ 136,072	\$ 174,788
Extraordinary item	<u>        -</u>	<u>225,918</u>
Excess of revenues over fundal expenses after extraordinary item	\$ <u>136,072</u>	\$ <u>519,228</u>

The accompanying notes and accountant's report  
are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE STATEMENTS OF YEAR ENDED SEPTEMBER 30, 1997  
CHANGES IN FUND BALANCES WITH COMPARATIVE FIGURES FOR 1996

	CURRENT <u>YEAR</u>	PRIOR <u>YEAR</u>
<b>Unrestricted Funds</b>		
Balance at Beginning of Year	\$ 3,413,500	\$ 4,034,300
Excess of Revenues over (under) Expenses		
Exhibit III	(130,000)	200,000
Balance at End of Year	<u>\$ 3,283,500</u>	<u>\$ 4,234,300</u>
<b>Restricted Funds</b>		
Specific Purpose Funds:		
Bond Sinking Fund		
Balance at Beginning of Year	\$ 448,000	\$ 387,000
Revenues from Taxes	281,000	240,000
Interest Earned	31,000	22,700
Bonds Retired	(130,000)	(130,000)
Interest on Bonds	(88,430)	(90,970)
Bond Issue Expense	(1,000)	(1,000)
Bank and Other Charges	(22)	(25)
Balance at End of Year	<u>\$ 740,338</u>	<u>\$ 648,805</u>

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HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE STATEMENT OF CASH FLOW OF UNRESTRICTED FUNDS	YEAR ENDED SEPTEMBER 30, 1997	
	CURRENT YEAR	PREVIOUS YEAR
<b>Cash flows from operating activities:</b>		
Cash received from patients	\$11,440,381	\$11,420,979
Revenues received	12,249	12,219
Gifts received	747	140
Tax revenue received	644,731	599,144
Cash paid to suppliers	(6,400,782)	(7,204,213)
Cash paid to employees	(4,388,388)	(4,409,561)
Net cash provided (used) by operating activities	\$ 708,888	\$ 420,777
<b>Cash flows from noncapital financing activities:</b>		
Proceeds from line of credit	\$ -	\$ 251,000
Payments on line of credit	(20,000)	(20,000)
Interest paid	(12,482)	(13,081)
Payments on loans payable	(21,385)	(20,513)
Net cash provided (used) by noncapital financing activities	\$ (54,869)	\$ 127,426
<b>Cash flows from capital and related financing activities:</b>		
Interest paid	\$ (16,343)	\$ (20,241)
Purchase of equipment	(348,963)	(283,429)
Proceeds from notes payable	200,318	-
Payments on capital leases	(141,971)	(147,958)
Payments on notes payable	(2,382)	-
Net cash used for capital and related financing activities	\$ (409,341)	\$ (451,628)
<b>Cash flows from investing activities:</b>		
Repayment of loan from affiliated company	\$ -	\$ 171,000
Loan to affiliated companies	(18,382)	(58,563)
Net cash provided (used) for investing activities	\$ (18,382)	\$ 112,437
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 45,757</b>	<b>\$ (18,414)</b>
Cash and cash equivalents at beginning of year	72,932	118,643
Cash and cash equivalents at end of year	<u>\$ 118,689</u>	<u>\$ 100,229</u>

The accompanying notes and accountant's report are an integral part of these financial statements.



HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

COMPARATIVE STATEMENTS OF CASH FLOW YEAR ENDED SEPTEMBER 30, 1997  
OF UNRESTRICTED FUNDS WITH COMPARATIVE FIGURES FOR 1996

	<u>CURRENT</u> <u>YEAR</u>	<u>PRECE</u> <u>YEAR</u>
RECONCILIATION OF EXCESS REVENUES OVER (UNDER) EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Excess of revenues over (under) expenses	\$ 509,032	\$ 509,820
Adjustments to reconcile excess of revenues over (under) expenses to cash provided by operating activities:		
Depreciation	\$ 498,183	\$ 460,428
Interest	38,628	38,323
(Increase) decrease from investments in subsidiary	(28,978)	(8,217)
(Increase) decrease in accounts receivable	(258,418)	1,155,932
(Increase) decrease in other receivable	12,402	(8,287)
Decrease in due from Medicare	246,681	165,854
(Increase) decrease in due from department of health & human resources	1,183,080	17,183,881
Increase in due to Medicare	58,419	-
Decrease (Increase) in due to department of health & human resources	94,098	(525,080)
Increase in inventories	(87,784)	(8,271)
Increase in prepaid expenses	643,652	(8,754)
Decrease in accounts payable	(381,883)	(289,827)
Increase (decrease) in accrued compensated absences	14,188	(27,875)
Increase in accrued expenses	<u>58,922</u>	<u>118,751</u>
	<u>\$ 1,158,968</u>	<u>\$ 182,483</u>
Net cash provided (used) by operations	<u>\$ 768,000</u>	<u>\$ 692,303</u>

The accompanying notes and accountants' report  
are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 1  
of Dr. Mary Paclib  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

FRANKLIN IMAGING, INC.  
BALANCE SHEET

SEPTEMBER 30, 2002

	<u>Assets</u>	
<b>CURRENT ASSETS</b>		
Cash		\$ 9,088
Accounts Receivable		
Less: Estimated Uncollectibles		
and Allowances of \$9,845		28,970
Inventory—stock		75,319
INVENTORY-RELATED equipment net of		
accumulated depreciation		3,950
<b>TOTAL CURRENT ASSETS</b>		<u>\$ 117,327</u>
<b>INVESTMENTS</b>		
Franklin Imaging Center Partnership		\$ 9,753
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		\$ 26,748
Less: Accumulated Depreciation		14,528
<b>NET PROPERTY, PLANT &amp; EQUIPMENT</b>		<u>\$ 12,220</u>
<b>TOTAL ASSETS</b>		<u>\$ 139,301</u>
	<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	
<b>CURRENT LIABILITIES</b>		
Accrued Expenses		\$ 2,987
<b>LONG-TERM LIABILITIES</b>		
Due to Franklin Foundation Hospital		\$ 175,861
<b>TOTAL LIABILITIES</b>		<u>\$ 178,848</u>
<b>STOCKHOLDERS' EQUITY</b>		
Capital Stock		\$ 10,000
Retained Earnings		119,401
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<u>\$ 129,401</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<u>\$ 139,301</u>

The accompanying notes and accountant's report  
are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

FRANKLIN INSURING, INC. NINE MONTHS ENDED  
STATEMENT OF REVENUE AND EXPENSES SEPTEMBER 30, 1982

REVENUE	
Sales and Rentals	\$ 39,467
 COST OF SALES	
Inventory-Beginning	21,492
Purchases	3,744
Contractual Allowance	7,842
Depreciation Expense-Rental Inventory	<u>28,756</u>
Total	\$ 59,734
Inventory-Ending	<u>33,358</u>
COST OF SALES	<u>\$ 26,376</u>
 GROSS PROFIT	 \$ 4,450
 OPERATING EXPENSES	
Salaries and Wages	14,814
Supplies	1,058
Taxes & Licenses	807
Travel-Expatrials	1,813
Utilities	987
Maintenance Contract	1,480
Miscellaneous	582
Depreciation	5,813
Bad Debt Expenses	<u>26,156</u>
TOTAL OPERATING EXPENSES	<u>\$ 42,281</u>
 NET OPERATING LOSS	 <u>\$ (38,831)</u>

The accompanying notes and accountant's report  
are an integral part of these financial statements

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

FRANKLIN TRADING, INC. NINE MONTHS ENDED  
RETAINED EARNINGS SEPTEMBER 30, 1987

Balance (Deficit) Beginning	\$ 148,574
Income (loss) for Period	<u>118,811</u>
Balance (Deficit) Ending	<u>\$ 267,385</u>

The accompanying notes and accountant's report  
are an integral part of these financial statements.

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, Inc.  
Franklin, Louisiana

FRANKLIN IMAGING, INC.  
STATEMENT OF CASH FLOWS

NINE MONTHS ENDED  
SEPTEMBER 30, 1992

Cash flows from operating activities	
Cash received from customers	\$ 36,745
Cash paid to employees	(14,054)
Cash paid to suppliers	<u>(29,423)</u>
Net cash used from operations	\$ (15,540)
Cash flows from financing activities	
Loan from Franklin Foundation Hospital	<u>29,751</u>
Net increase in cash	\$ 5,287
Cash at beginning of year	<u>3,821</u>
Cash at end of year	<u>\$ 9,108</u>
Reconciliation of Excess Revenues over (under) expenses	
Net operating loss	\$ (98,951)
Adjustments to reconcile net loss and net cash provided (used) by operations:	
Depreciation—equipment	3,823
Decrease in accounts receivable	14,004
Decrease in inventory—stock	7,473
Decrease in inventory—rental equipment	3,383
Increase in accrued expenses	<u>882</u>
	<u>3,382,381</u>
Net cash used from operations	<u>\$ (15,540)</u>

The accompanying notes and accountant's report are an integral part of these financial statements.

HOSPITAL SERVICE DISTRICT NO. 1  
OF St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1987

NOTE 1 - Summary of Significant Accounting Policies

Franklin Foundation Hospital is a component unit of St. Mary Parish.

The accounting and reporting policies of Franklin Foundation Hospital conform to generally accepted accounting principles as applicable to hospitals and to the industry audit guide, Health Care Organizations.

Method of Accounting. The accrual basis of accounting is used by the hospital for all funds. Consequently all revenues, except property tax revenues, are recognized when they are earned, and all expenses are recognized when they are incurred. Property tax revenues are recognized when received rather than when assessed.

Fund accounting. The accounting system is organized and operated on a fund basis whereby a separate self-balancing set of accounts is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are grouped into two fund categories and two fund types as follows:

Unrestricted Funds -

Operating funds. The operating fund is used to account for all transactions applicable to the operation of the hospital including patient service revenues, other operating revenues and operating expenses. This fund is also used to account for revenues derived from the levy of a 7.88 property tax millage assessment. These revenues have been dedicated to the improvement, maintenance, and operations of the hospital. Unrestricted gifts and donations are also accounted for in this fund.

Restricted Funds -

Specific Purpose Funds. These funds are used to account for restricted resources in accordance with instructions from the party placing restrictions on the resources. The hospital uses these funds to account for the receipt of property tax revenue dedicated to the retirement of bonds issued in connection with the expansion and renovation of the hospital and purchase of new equipment. Payments made to retire bonds at maturity and to pay accrued interest are also accounted for in these funds.

HOSPITAL SERVICE DISTRICT NO. 1  
OF St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
FRANKLIN, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1990

NOTE 3 - Continued

**Inventories.** Inventories are stated at cost, generally on a first-in, first-out method.

**Property, Buildings and Equipment.** Property, buildings and equipment are maintained on the basis of original cost. Interest on bonded debt during the construction period from 1988 through 1988 has been capitalized. Interest incurred on bonded debt on construction which began during the year ended September 30, 1987 has been capitalized. Interest earned on investment of bond proceeds has been offset against interest capitalized during these periods.

Expenditures for repairs and maintenance are expensed when incurred. Expenditures determined to represent additions or betterments are capitalized. Equipment purchases exceeding \$500 are capitalized if the estimated useful life of the asset exceeds one year.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Assets purchased during the current fiscal year are depreciated using the half-year convention. Under the half-year convention, all assets are treated as placed in service at the midpoint of the year regardless of the actual date placed in service. Estimated useful lives are as follows:

Land Improvements	10 Years
Building & Improvements	10-20 Years
Equipment	5-15 Years

**Allowance for Doubtful Accounts.** Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others due services rendered. The Hospital provides care to patients even though they may lack adequate insurance or are covered by contractual payment arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risks by regularly reviewing its accounts and contracts and by providing appropriate allowances thereon.

Uncollectible amounts due for patient services are written off at the time information becomes available which would indicate the uncollectibility of the particular receivable.

Bad debt expense, charity allowances and other allowances after recoveries was \$287,841 for 1987 and \$282,123 for 1988. Uncollectible accounts written off were \$642,148 for 1987 and \$870,898 for 1988.

HOSPITAL SERVICE DISTRICT NO. 2  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991

NOTE 1 - Continued

**Investments.** Investments consist of certificates of deposit, savings accounts, money market accounts, and corporate stock. All investments except corporation stock are stated at cost, which approximates market. Since Hospital owns 100% of corporation, investment in corporation is stated using the equity method of accounting.

**Accumulated Sickness Vacation and Sick Pay.** An accrual has been made for compensated employee absences for vacation pay. Sick pay benefits are converting and have not been accrued.

**Patient Service Revenue.** Patient service revenue is recorded at the Hospital's established rates and is reported after contractual adjustments. A significant portion of the Hospital's revenues are derived from Medicare and Medicaid programs.

NOTE 2 - Property, Plant and Equipment

Property, plant, and equipment are stated at historical cost. A summary of the amounts and the related accumulated depreciation follows:

	Cost	Accumulated Depreciation
December 31, 1990:		
Land	\$ 9,850	\$ -
Buildings & Improvements	4,848,750	3,531,750
Equipment	<u>4,418,820</u>	<u>3,381,881</u>
TOTAL	<u>\$11,337,420</u>	<u>\$ 7,000,531</u>
September 30, 1991:		
Land	\$ 9,850	\$ -
Buildings & Improvements	4,833,780	3,531,812
Equipment	<u>4,418,820</u>	<u>3,338,128</u>
TOTAL	<u>\$11,342,450</u>	<u>\$ 6,870,530</u>



HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1997

NOTE 3 - Investments-Cash

Investments-cash consisted of the following:

Invested Funds:	1997		1996	
	Balance	Interest Rate	Balance	Interest Rate
Savings Account-Teche Federal Savings & Loan	\$ 4,863	2.75 %	\$ 3,953	2.75 %
Money Market Account-Iberia Bank	3,727	2.51 %	5,583	2.75 %
Money Market Account Wintrop National Bank	8,833	2.75 %	8,420	2.75 %
Money Market Account- Hibernia National Bank	<u>86,875</u>	3.25 %	<u>18,430</u>	3.25 %
TOTAL	<u>104,303</u>		<u>36,406</u>	

NOTE 4 - Inventories

Inventories consisted of the following at September 30, 1997, and 1996:

	1997	1996
Surgery	\$ 124,601	\$ 123,278
Laboratory	29,881	27,677
Radiology	8,180	24,278
Pharmacy	147,455	141,039
I.V. Therapy	8,202	7,898
Dietary	8,831	5,310
Central Supply	141,778	88,584
Housekeeping	<u>6,585</u>	<u>8,881</u>
TOTAL	<u>5,435,310</u>	<u>5,471,881</u>

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
FRANKLIN, LOUISIANA

NOTE TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1997

NOTE 3 - Investments

The Hospital has invested \$10,000 for a 100% ownership of a corporation called Franklin Imaging, Inc. Franklin Imaging, Inc. has invested \$8,000 for a 49% ownership in a partnership called Franklin Imaging Center Limited Partnership. This partnership has constructed a computed tomography imaging facility on the property of the Hospital. The partnership has leased this facility to the Hospital. Rental payments are to be based on usage.

During 1996 Franklin Imaging, Inc. started a business to rent and sell durable medical equipment. The hospital made advances to Franklin Imaging, Inc. to help the business get started. These advances are reflected in other assets on the balance sheet.

The income (loss) from these investments is as follows for the year ended September 30, 1997:

Income from partnership for the year ended December 31, 1996	\$ 82,489
Income (loss) for cooperation from operations for period ended September 30, 1997	<u>(12,430)</u>
Change in equity in cooperation	<u>\$ 70,059</u>

Franklin Imaging, Inc. has a year end of December 31. Financial statements of Franklin Imaging, Inc. for the nine months ended September 30, 1997 shows a net loss of \$38,830. The income for the year ended September 30, 1997 is as follows:

Income (loss) from operations for period from 10/1/96-12/31/96	\$ (14,596)
For period from 1/1/97-9/30/97	<u>(24,234)</u>
Total	\$ (38,830)
Income from partnership for year ended December 31, 1996	<u>82,489</u>
Income for year ended September 30, 1997	<u>\$ 43,659</u>

The income or loss from partnership is recorded on books of Franklin Imaging at end of calendar year when information is received.

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1997

NOTE 8 - Loans Payable

The St. Mary Parish Council has loaned the Hospital a total of \$44,000. The balance due was \$381,178 at September 30, 1997 and \$375,318 at September 30, 1996. These loans were made to assist the hospital in paying current operating expenses. The loans are unsecured and due and payable on demand. These obligations have been classified as long-term debt since it is not anticipated that they will be paid within the next twelve months. The Hospital has agreed to trust Parish prisoners and effect the bill against the loans to the Parish Council.

NOTE 9 - Leases

Leased property under capital lease consists of various equipment and furniture in the amount of \$1,871,298. This is included as equipment and is being amortized using the straight line method based on a life of five, ten, or fifteen years. Amortization of leased equipment amounted to \$84,778 in 1997, and \$181,201 in 1996. These amounts have been included in depreciation expense.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of September 30, 1997 and 1996.

	1997	1996
1997	\$ -	\$ 181,896
1998	501,551	501,551
1999	<u>52,199</u>	<u>52,199</u>
Net minimum lease payments	\$ 553,750	\$ 735,646
less: Amount representing interest	<u>13,513</u>	<u>28,821</u>
Present value of net minimum lease payments	\$ 540,237	\$ 706,825
less: Current Portion	<u>20,800</u>	<u>18,111</u>
Long-Term Portion	<u>\$ 519,437</u>	<u>\$ 688,714</u>

In addition to the above, the Hospital has entered into a number of operating leases for the use of various medical and office equipment.

Total rental expense amounted to \$98,981 and \$128,708 for the fiscal years ended September 30, 1997, and 1996, respectively.

NOTE 10 - Notes Payable

The proceeds from these notes were used to purchase equipment and software.

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1992

NOTE 3 - Service Plan

In August, 1978, the Hospital adopted a retirement plan covering all eligible employees who want to participate. The cost to the employee for 1987 is 1% of the first \$45,000 of yearly pay, plus 4% of their pay in excess of \$45,000, 1% avg. The Hospital contributes to the plan 1% of the first \$45,000 of yearly pay of each participating employee plus 4% of yearly pay in excess of \$45,000, 1% avg. The total retirement expense also includes payment by the Hospital for past service costs. Pension costs amounted to \$97,737 in 1987 and \$44,466 in 1990.

NOTE 10 - Group Hospitalization Insurance

In June of 1980, the Hospital started a self-funded insurance plan for group hospitalization covering its employees. The plan is administered by an outside firm. The plan contains a specific reimbursement deductible level which limits the Hospital's liability to \$40,000 per covered person. Employees pay for the cost of dependent coverage through payroll withholdings.

NOTE 11 - Medicare & Medicaid Programs

Services rendered to Medicare and Medicaid patients are paid for in accordance with the prescribed program guidelines. Any amounts received under these programs are subject to examination and retrospective adjustment by the program intermediary. Provisions for anticipated retrospective adjustments for Medicare and Medicaid are provided as the period the related services are rendered.

The Medicare and Medicaid cost reports are prepared by a company outside the hospital. Consequently any amounts regarding the provisions for retrospective adjustment has been furnished to us by others.

HOSPITAL SERVICE DISTRICT NO. 1  
OF ST. MARY PARISH  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTE TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991

NOTE 12 - Management Contract

In July of 1984, the hospital entered into an agreement with Quorum Health Resources, Inc. (formerly HOA Management Company, Inc.) to manage the day-to-day business affairs of the hospital. Quorum provides the hospital with the services of an administrator and a controller. Management fees are adjusted annually based on the Consumer Price Index. These fees are paid monthly in addition to a reimbursement for compensation and fringe benefits paid to the personnel furnished by Quorum to the hospital. Management fees incurred were \$223,682 for 1987 and \$218,184 for 1988. Reimbursements made to Quorum for compensation and fringe benefits for personnel furnished by Quorum were \$180,606 for 1987 and \$181,490 for 1988.

NOTE 13 - Contingent Liabilities

Compensated Absences. The hospital is contingently liable for sick leave to its employees. Sick pay benefits are accruing and are not paid in the event of termination of employment. Accrued sick leave as of September 30, 1987 and 1988 was \$17,829 and \$18,450.

Hill-Burton Act. U.S. Department of Health and Human Resources has made inquiries into the hospital's compliance with the Hill-Burton Act. The hospital has received notification that it has met its obligations under the Hill-Burton program.

NOTE 14 - Compensation of Governance Board

No members of the Board of Commissioners of Franklin Foundation Hospital received any compensation for their services. Board members are:

Marshall Guidry  
Ray Luke  
Derald Rigg  
Terry Martin  
Roland Eggwyler  
Stegg Wood  
Clayton Gaffery, Jr.

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTE TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991

NOTE 10 - Cash and Cash Equivalents

For purposes of this statement, cash and cash invested in money market accounts and certificates of deposit are considered cash and cash equivalents.

At September 30, 1991 and 1990, Franklin Foundation Hospital has cash and cash equivalents as follows:

	1991	1990
Demand deposits	\$ 3,300	\$ 6,200
Interest-bearing demand deposits	100,200	92,807
Money market accounts	18,400	17,856
Petty cash	800	810
Total	<u>\$ 122,700</u>	<u>\$ 117,673</u>

At September 30, 1991 and 1990, Franklin Foundation Hospital has cash and cash equivalents in the Bond Sinking Fund:

Interest-bearing demand deposits	\$ 297,100	\$ 294,800
Time deposits	200,000	190,000
Total	<u>\$ 497,100</u>	<u>\$ 484,800</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount of deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. As September 30, 1991, Franklin Foundation Hospital has \$497,100 in deposits. These deposits are secured from risk by \$200,000 of federal deposit insurance and \$297,100 of pledged securities held by the custodial bank in the name of the fiscal agent bank.

Even though the pledged securities are considered noncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 29:1227 imposes a statutory requirement on the custodial bank to administer and sell the pledged securities within 30 days of being notified by Franklin Foundation Hospital that the fiscal agent has failed to pay deposited funds upon demand.

HOSPITAL SERVICE DISTRICT NO. 1  
OF St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1997

NOTE 16 - Other Assets

The hospital has formed a corporation in which it invested \$10,000. This corporation has invested \$8,000 for a 49% interest in a partnership with a group of doctors. This partnership has constructed a computed tomography imaging facility on property of the hospital. The partnership leases the facility to the hospital on a fee per use basis. The \$129,428 at September 30, 1997 and the \$129,000 at September 30, 1996 in other assets is broken down below:

	1997	1996
Receivable from partnership	\$ 20,000	\$ -
Receivable from corporation	<u>109,428</u>	<u>129,000</u>
	<u>\$ 129,428</u>	<u>\$ 129,000</u>

The portion receivable from the corporation represents advances made to help durable medical equipment business get started and operating advances.

The portion receivable from the partnership represents expenditures made for the partnership.

NOTE 17 - Litigation

The hospital has brought suit against a physician. Hospital has claimed that physician's hospital agreement was breached when he failed to reimburse hospital over \$188,000 in expenses incurred guaranteeing his income and retaining him. The likelihood of a favorable outcome appears to be at least 75%.

Respiratory Care, Inc. has brought suit against hospital for amounts due on open account and for breach of equipment lease. Trial was held and judgment entered in favor of Respiratory Care, Inc. in the amount of \$22,329.31. No judgment has been signed. Hospital plans to negotiate the judgment. In the event of an unsuccessful settlement, hospital intends to request new trial.

Specialty Healthcare, Inc. has brought suit against hospital for compensation allegedly due for the premature termination of agreement to manage hospital's rehabilitation department, unauthorized use of proprietary information, and employment of ex-specialty employees. This matter is set for arbitration March 8, 1998. The likelihood of an unfavorable outcome appears to be less than 25%. The amount of potential loss is less than \$150,000.

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTE 20 - FINANCIAL STATEMENTS SEPTEMBER 30, 1993

NOTE 21 - LITIGATION - CONTINUED

Mediways, Inc. has brought suit against Hospital for compensation allegedly due pursuant to a management agreement. It appears questionable whether plaintiff will continue pursuing this matter. Sufficient discovery has not been completed to determine whether any potential liability exists for Hospital. Hospital's management intends to contest this matter vigorously.

NOTE 22 - Bonds Payable, Series 1981

In September 1981, in order to obtain better interest rates, the Hospital issued \$1,150,000 of refunding bonds. The purpose of these bonds was to redeem the bonds issued in 1981 and pay any interest due on the 1981 bonds. The 1981 bonds mature and are payable in varying annual amounts on March 1 each year ending with the year 2004, and have interest rates from 8.75 to 9.00.

The bonds are due as follows:

Year Ending September 30,	Principal Payable	Interest Payable	Total
1998	100,000	72,380	212,380
1999	100,000	63,380	213,380
2000	100,000	54,380	214,380
2001	100,000	45,380	213,380
2002	100,000	36,380	212,420
2003	100,000	27,380	200,380
2004	100,000	18,380	216,380
Total	\$1,100,000	\$625,320	\$1,725,320

Bond issue cost of \$19,448 and original issue discount of \$84,000 are being amortized using the straight line method over the life of the bonds. Amortization of bond issue costs amounted to \$1,557 and amortization of original issue discount amounted to \$6,732 in 1997 and 1998.

Bonds and interest are to be paid out of a tax levied on property owners in Hospital Service District No. 1. These funds are deposited in the bond retirement fund and are designated to be used only for this purpose.



HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS September 30, 1991

NOTE 19 - Audit Fees

Audit fees amounted to 433,798 and \$16,262 for the fiscal years ended September 30, 1987 and 1988, respectively.

NOTE 20 - Legal Fees

Legal fees amounted to \$53,884 and \$31,161 for the fiscal years ended September 30, 1987 and 1988, respectively.

NOTE 21 - Other Revenue

Other revenue consisted of the following at September 30, 1987, and 1988:

	<u>1987</u>	<u>1988</u>
Retail sales of supplies and drugs	\$ 34,224	\$ 38,800
Home health agency	249,888	-
Rental income	265	380
Vending machines	2,208	2,248
Telephone commissions	834	844
Cafeteria	83,758	88,277
Miscellaneous	<u>82,317</u>	<u>71,823</u>
TOTAL	<u>\$ 410,854</u>	<u>\$ 333,852</u>

NOTE 22 - Other Non-Operating Revenue

Other non-operating income consisted of the following at September 30, 1987, and 1988:

	<u>1987</u>	<u>1988</u>
Interest income	\$ 18,248	\$ 12,319
Contributions and gifts	<u>747</u>	<u>148</u>
TOTAL	<u>\$ 19,014</u>	<u>\$ 12,467</u>

HOSPITAL SERVICE DISTRICT NO. 1  
of St. Mary Parish  
FRANKLIN FOUNDATION HOSPITAL, INC.  
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1982

NOTE 23 - Loans Payable

Midstate National Bank, with Tchou Federal Savings Bank participating, has loaned the Hospital a total of \$401,000. \$208,000 was repaid when tax revenue was received in January 1982. The remaining balance of \$193,000 was repaid at September 30, 1982. These loans were made to assist the hospital in paying current operating expenses and are to be repaid out of tax revenues.

NOTE 24 - Extraordinary Item

The extraordinary item is for charges in Medicare and Medicaid contractual allowances in prior years. Part of this was a result of a class action suit that was found in favor of the hospital.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
BASED ON AN ASSESSMENT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Commissioners  
Hospital Service District No. 1  
of St. Mary Parish  
Franklin Foundation Hospital  
Franklin, Louisiana

We have audited the general purpose financial statements of Franklin Foundation Hospital, as of and for the years ended September 30, 1997 and 1998, and have issued our report thereon dated February 18, 1999.

We conducted our audit 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.

Compliance with laws, regulations, contracts, and grants applicable to Franklin Foundation Hospital is the responsibility of Franklin Foundation Hospital management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital'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 tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the board of commissioners, management, and the legislative auditor. However, this report is a matter of public record and its distribution is not limited.

*Brunn & Friend*  
Brunn & Friend, CPAs

February 18, 1999

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
STRUCTURE BASED ON AUDIT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners  
Hospital Service District No. 1  
of St. Mary Parish  
Franklin Foundation Hospital  
Franklin, Louisiana

We have audited the general purpose financial statements of Franklin Foundation Hospital, as of and for the years ended September 30, 1997 and 1998, and have issued our report thereon dated February 18, 1999.

We conducted our audit 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 misstatements.

The management of Franklin Foundation Hospital 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 general purpose 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 Foundation Hospital, for the year ended September 30, 1971, 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 general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in accounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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

*Donald S. Friend*

Connell & Friend, CPA's

February 14, 1972