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

Years Ended September 30, 1998 and 1997

# TABLE OF CONTENTS Independent Auditor's Report 1-2 **EXHIBITS** Comparative Balance Sheets ..... 11 Comparative Statements of Changes in Fund Balances 111 Comparative Statements of Cash Flows of Unrestricted Funds ...... IV Franklin Imaging, Inc. Financial Statements (Unaudited) (Twelve Months Ended December 31, 1997) ..... V Notes to Financial Statements VI

## OTHER REPORTS

**Compliance and Internal Control** 

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for

> public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date APR 1

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Dressel & Friend

CERTIFIED PUBLIC ACCOUNTANTS 449 EAST ST. PETER STREET NEW IBERIA, LOUISIANA 70560-3752

> (318) 365-8211 FAX (318) 365-8214

Independent Auditor's Report

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

TERRET P. DRESSEL, CPA

BALPH FRIEND, CPA

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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, 1998 and 1997, and the related statements of revenue and expenses, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTS SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTS financial statements based on our audit.

We have not audited the separate financial statements of Franklin Imaging, Inc. for the twelve months ended December 31, 1997.

We conducted our audit of Franklin Foundation Hospital, Inc. in accordance with generally accepted auditing standards and <u>Governmental Auditing Standards</u> 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.

Government Accounting Standards Board Technical Bulletin 98-1. Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in progress
  or completed as of the end of the reporting period to make computer systems and other electronic
  equipment critical to conducting operations year 2000-complaint; and
- the additional stages of work necessary for making the computer systems and other electronic

### equipment year 2000-compliant.

Franklin Foundation Hospital has omitted such disclosures. We do not provide assurance that Franklin Foundation Hospital is or will be year 2000 ready, that Franklin Foundation Hospital year 2000 remediation efforts will be successful in whole or in part, or that parties with which Franklin Foundation Hospital does business will be year 2000 ready.

In our opinion, except for the omission of the information discussed in the preceding paragraph, 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 1998 on our consideration of Franklin Foundation Hospital. Internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

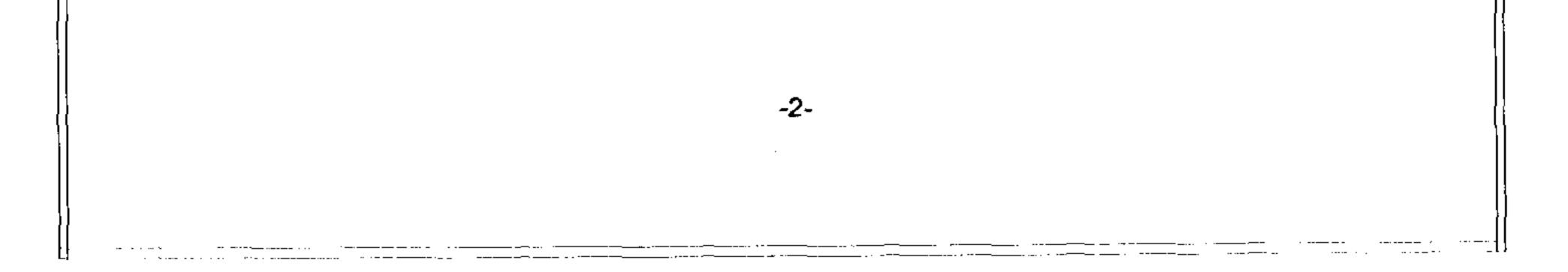
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DRESSEL & FRIEND New Iberia, LA

March 19, 1999

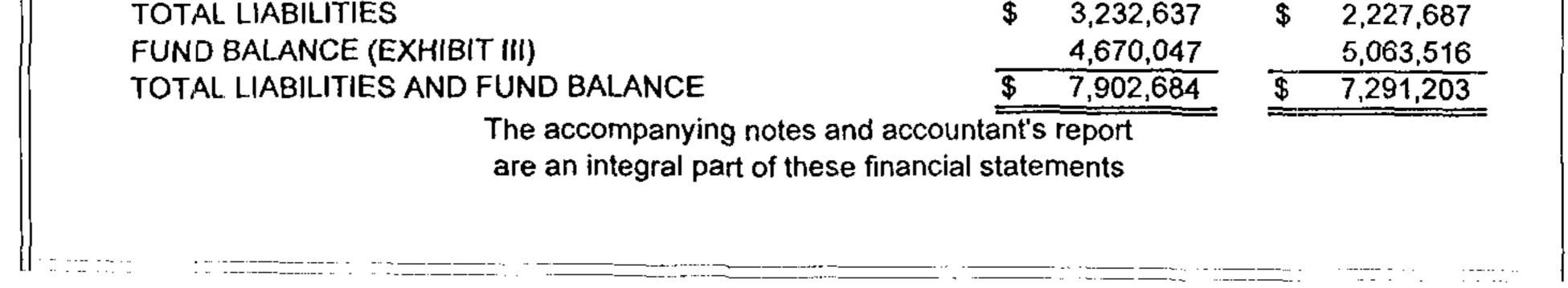
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HOSPITAL SERVICE DISTRI		. 1		Tage TOTA
of St. Mary Parish		•		
FRANKLIN FOUNDATION HOS	PITAL,	INC.		
Franklin, Louisiana				
		SEPTEMBER	R 30, 1	1998 WITH
COMPARATIVE BALANCE SHEETS	CO	MPARATIVE FI	GURI	ES FOR 1997
UNRESTRICTED FUN	<u>DS</u>			
<u>ASSETS</u>				
		CURRENT		PRIOR
CURRENT ASSETS	•	YEAR	•	YEAR
Cash Investments Cash	\$	311,695	\$	8,741
Investments-Cash		64,199		114,899
Accounts Receivable Less: Estimated Uncollectibles and Allowances of				
\$1,409,500 in 1998 and \$1,023,124 in 1997		2,121,597		1,750,034
Other Receivables		2,550		9,696
Inventories		514,849		469,216
Prepaid Expenses		127,366		136,584
TOTAL CURRENT ASSETS	\$	3,142,256	\$	2,489,170
		•		
INVESTMENTS	\$	(64,283)	\$	(98,407
PROPERTY, PLANT, AND EQUIPMENT	\$	12,121,501	\$	11,719,427
Less: Accumulated Depreciation		7,517,185		7,013,415
NET PROPERTY, PLANT & EQUIPMENT	\$	4,604,316	\$	4,706,012
OTHER ASSETS	\$	220,395	\$	194,428
TOTAL ASSETS	\$	7,902,684	\$	7,291,203
LIABILITIES AND FUND BA	LANCE			
CURRENT LIABILITIES				
Obligations Under Capital Lease	\$	48,342	\$	90,951
Notes Payable		107,642		144,036
Due to Medicare		722,187		50,419
Due to Department of Health & Human Resources		185,000		94,090
Accounts Payable		835,568		855,126
Accrued Compensated Absenses		171,488		152,837
Accrued Expenses	<u>e</u>	425,952	<u> </u>	290,325
TOTAL CURRENT LIABILITIES	Φ	2,496,179	\$	1,677,784
LONG-TERM LIABILITIES				
Loan Payable-St. Mary Parish Council	\$	339177	\$	352,129
Notes Payable		397281		143,502



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		Exhibi
		age 2 of
HOSPITAL SERVICE DIS		
of St. Mary Par		
FRANKLIN FOUNDATION I		
Franklin, Louisi		
	SEPTEMBER 30, 1998	
COMPARATIVE BALANCE SHEETS	COMPARATIVE FIGURES F	<u>-OR 19</u>
RESTRICTED FL	INDS	
ASSETS		
	CURRENT	RIOR
	· · · · · · · · · · · · · ·	YEAR
SPECIFIC PURPOSE FUNDS:	, <u>۲. اف این</u>	4. <del>6</del> ()  <u>)</u>
BONDS SINKING FUND		
Cash	\$ 632,414 \$	697,10
Original Issue Discount	36,962	43,68
Bond Issue Costs	8,566	10,12
TOTAL	\$ 677,942 \$	750,91
BONDS PAYABLE FUND		
Amount Available for Retirement of Bonds	<b>\$</b> 632,413 <b>\$</b>	697,10
Amount to be Provided from Tax Revenues	437,587	512,89
TOTAL	ويهريها ومنصف والمستعدين والمستعد والمستع	,210,00
TOTAL SPECIFIC PURPOSE FUNDS	<u>\$ 1,747,942</u> <u>\$ 1</u>	,960,91
LIABILITIES AND FUND	BALANCE	
SPECIFIC PURPOSE FUNDS:		
BONDS SINKING FUND		
Bond Interest Payable	<b>\$</b> 5,680 <b>\$</b>	6,38
Fund Balance (Exhibit III)	672,262	744,53
TOTAL	\$ 677,942 \$	750,91
BONDS PAYABLE FUND		
Bonds Payable-Series 1991-Current	<b>\$</b> 150,000 <b>\$</b>	140,00
Bonds Payable-Series 1991-Long Term	, , , , , , , , , , , , , , , , , , , ,	,070,00
TOTAL	میں مصبحیوں	,210,00
		<u></u>
	<b>\$</b> 1,747,942 <b>\$</b> 1	

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

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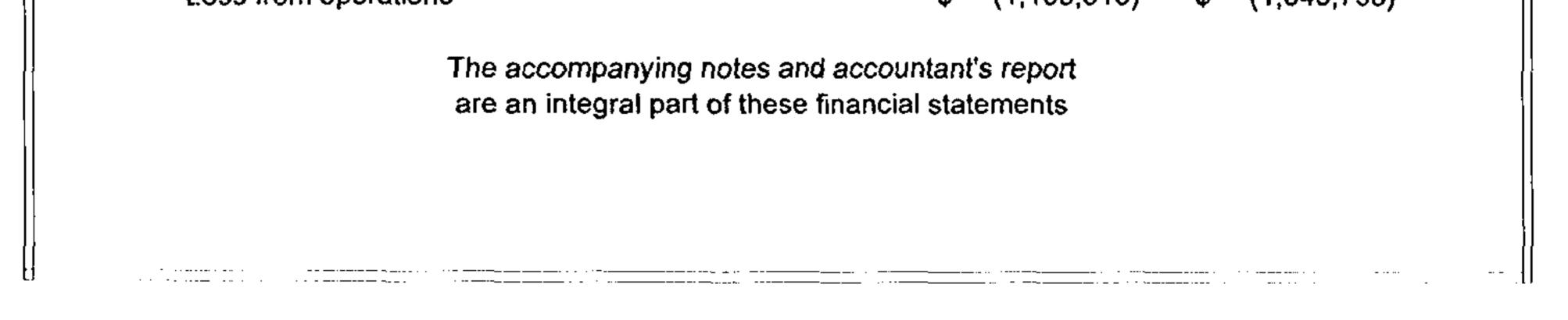
			Exhibit
			Page 1 of 2
HOSPITAL SERVIC	E DISTRICT NO. 1		rageron
of St. Ma			
FRANKLIN FOUNDAT	•		
Franklin, I	·		
COMPARATIVE STATEMENTS OF	YEAR ENDED SE	EPTEM	BER 30, 199
REVENUES AND EXPENSES	WITH COMPARATVE		-
	CURRENT		PRIOR
	YEAR		YEAR
Patient service revenue			
Inpatient revenue	\$ 10,018,401	\$	8,830,419
Outpatient revenue	7,930,834	-	6,556,441
Clinic revenue	1,101,098		1,452,390
Swing bed revenue	736,118		628,431
Rehabitation revenue	2,068,116		1,496,668
Total patient service revenue	\$ 21,854,567		18,964,349
Other revenue	442,140	)	410,852
Total gross revenue	\$ 22,296,707		19,375,201
Deductions from gross revenue			
Contractual adjustments	\$ 9,505,054	\$	7,697,052
Other	855,228	•	461,653
Total deductions from gross revenue	\$ 10,360,282	\$	8,158,705
Net revenue			
	\$ 11,936,425	\$	11,216,496
Operating expense			
Salaries & wages	\$ 5,513,528	\$	4,603,548
Benefits	1,080,860	)	868,550
Fees-physicians	762,590	) <sup>†</sup>	865,920
Fees-other	1,536,879	l	1,906,092
Supplies	1,583,458	i	1,557,884
Utilities	361,830	)	369,736
Repairs & maintenance	219,752		215,500
Leases & rentals	105,556	i	98,981
Insurance	250,203	•	234,104
Interest expense	25,044		28,628
Other expenses	223,504		125,347
Bad debts	877,769		887,841
Total operating expenses before depreciation	\$ 12,540,973	\$	11,762,131
Depreciation	503,770	) 	498,163
Total operating expenses	\$ 13,044,743	\$	12,260,294
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# Exhibit II Page 2 of 2

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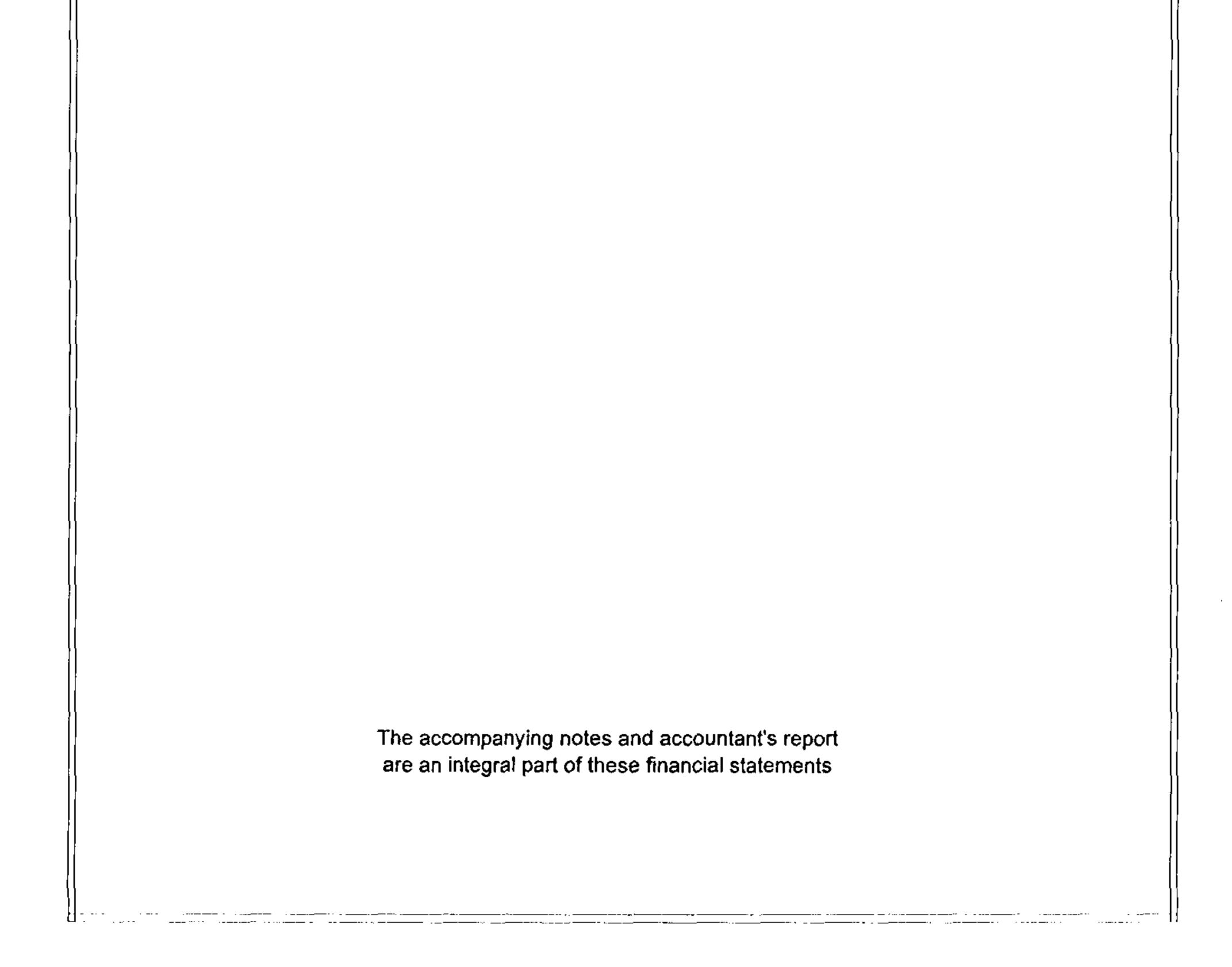
## HOSPITAL SERVICE DISTRICT NO. 1 of St. Mary Parish FRANKLIN FOUNDATION HOSPITAL, INC. Franklin, Louisiana

COMPARATIVE STATEMENTS OF
REVENUES AND EXPENSES

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### YEAR ENDED SEPTEMBER 30, 1998 WITH COMPARATIVE FIGURES FOR 1997

······································	·····	CURRENT	P	RIOR
		YEAR	-	EAR
Non-operating revenues (losses)				
Tax revenue	\$	657,459	\$	644,731
Other		23,266		20,016
Income from investment in subsidiary		34,124		28,979
Total non-operating revenues	\$	714,849	\$	693,726
Excess of revenues over (under) expenses	\$	(393,469)	<u>\$</u>	(350,072)

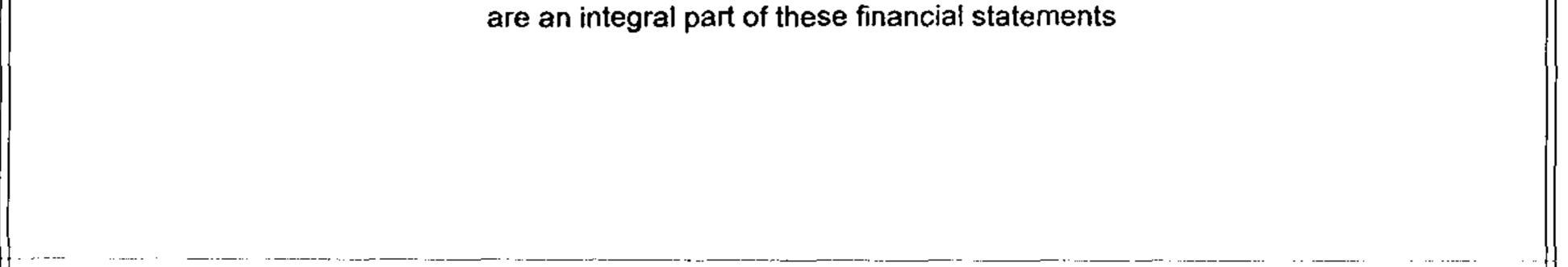


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				Exhibit III
HOSPITAL SERVIC	E DISTRICT NO. 1			
of St. Mar				
FRANKLIN FOUNDAT	•	IC.		
Franklin, L	ouisiana			
COMPARATIVE STATEMENTS OF	YEAF	RENDED SEP	TEMB	BER 30, 1998
CHANGES IN FUND BALANCES	WITH COM	PARATIVE FIG	<b>JURE</b>	S FOR 1997
		CURRENT		PRIOR
		YEAR		YEAR
Unrestricted Funds			•	
Balance at Beginning of Year	\$	5,063,516	\$	5,413,588
Excess of Revenues over (under) Expenses		(000 400)		(050 070)
(Exhibit II)	<u>.</u>	(393,469)		(350,072)
Balance at End of Year	<u> </u>	4,670,047		5,063,516
Restricted Funds				
Specific Purpose Funds:				
Bonds Sinking Fund	•	744500	•	040.000
Balance at Beginning of Year	\$	744,532	\$	649,969
Revenues from Taxes		125,937		281,245
Interest Earned		21,743		31,363
Bonds Matured		(140,000)		(130,000)
Interest on Bonds		(78,380)		(86,476)
Bond Issue Expense Book and Other Charges		(1,557)		(1,557)
Bank and Other Charges Balance at End of Year	2	<u>(13)</u> 672,262	\$	(12) 744,532
Dalance at Litu VI i cal				

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The accompanying notes and accountant's report

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Exhibit IV Page 1 of 2

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

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COMPARATIVE STATEMENT OF CASH FLOWS OF UNRESTRICTED FUNDS		EAR ENDED SEF		•
		CURRENT		PRIOR
		YEAR		YEAR
Cash flows from operating activities				
Cash received from patient	\$	11,456,917	\$	11,565,301
Interest received		23,174		19,269
Gifts received		92		747
Tax revenue received		657,459		644,731
Cash paid to suppliers		(6,044,978)		(6,851,792)
Cash paid to employees		(5,494,877)		(4,589,368)
Net cash provided (used) by operating activities	\$	597,787	\$	788,888
Cash flows from noncapital financing activities:				
Payments on line of credit	\$	0	\$	(251,000)
Interest Paid		(3,907)		(12,465)
Payments on loans payable		(12,952)		(21,189)
Net cash provided (used) by noncapital financing activities	\$	(16,859)	\$	(284,654)
Cash flows from capital and related financing activities:				
Interest paid	\$	(21,137)	\$	(16,163)
Purchase of equipment		(402,074)		(549,969)
Proceeds from notes payable		400,000		290,118
Payments on capital leases		(96,881)		(141,572)
Payments on notes payable		(182,615)		(2,580)
Net cash used for capital and related financing activities	\$	(302,707)	\$	(420,166)
Cash flows from investing activities:				
Loan to affiliated companies		(25,967)		(38,360)
Net cash provided (used) for investing activities	\$	(25,967)	\$	(38,360)
Net increase (decrease) in cash and cash equivalents	\$	252,254	\$	45,708
Cash and cash equivalents at beginning of year	_	123,640	_	77,932
Cash and cash equivalents at end of year	\$	375,894	\$	123,640

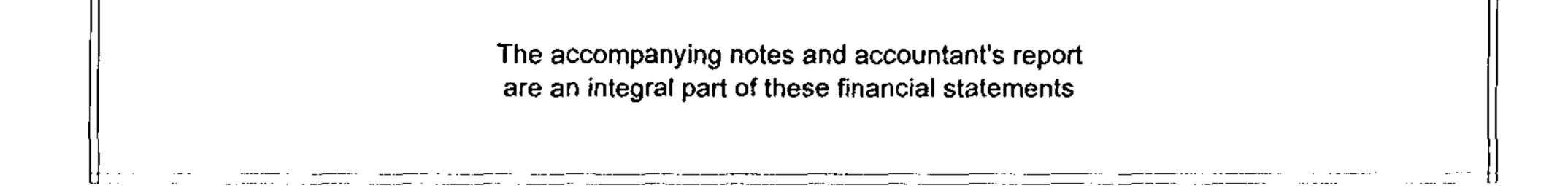


				Exhibit IV Page 2 of 2
HOSPITAL SERVICE	DISTRICT NO	D. 1		
of St. Mary	Parish			
FRANKLIN FOUNDATIO	ON HOSPITAL	, INC.		
Franklin, Lo	uisiana			
COMPARATIVE STATEMENT OF CASH FLOWS	YE,	AR ENDED SEP	PTEME	BER 30, 1998
OF UNRESTRICTED FUNDS	WITH CO	MPARATIVE FI	GURE	S FOR 1997
	C	URRENT		PRIOR
		YEAR		YEAR
<b>RECONCILATION OF EXCESS REVENUES OVER (</b>	UNDER)			
EXPENSES TO NET CASH PROVIDED BY OPEN	-			
ACTIVITIES				
Excess of Revenues over (under) expenses	\$	(393,469)	\$	(350,072)
Adjustments to reconcile excess of revenues				
over (under) expenses to cash provided by operating activities:				
Depreciation	\$	503,770	\$	498,163
interest	•	25,044	¥	28,628
Income from investment in subsidiary		(34,124)		(28,979
				• • •
Increase in accounts receivable		(371,563)		(350,416)
		(371,563) 7,146		
Increase in accounts receivable		•		
Increase in accounts receivable Decrease in other receivable		•		12,611
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources		7,146 0 0		1,183,061
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare		7,146 0		12,611 246,881
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health &		7,146 0 0 671,768		12,611 246,881 1,183,061 50,419
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health & human resources		7,146 0 671,768 90,910		12,611 246,881 1,183,061 50,419 94,090
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health & human resources Increase in Inventories		7,146 0 0 671,768 90,910 (45,633)		12,611 246,881 1,183,061 50,419 94,090 (37,734)
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health & human resources Increase in Inventories (Increase) decrease in prepaid expenses		7,146 0 0 671,768 90,910 (45,633) 9,218		12,611 246,881 1,183,061 50,419 94,090 (37,734) (43,602)
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health & human resources Increase in Inventories (Increase) decrease in prepaid expenses Decrease in accounts payable		7,146 0 671,768 90,910 (45,633) 9,218 (19,558)		12,611 246,881 1,183,061 50,419 94,090 (37,734) (43,602) (581,863)
Increase in accounts receivable Decrease in other receivable Decrease in due from Medicare Decrease in due from department of health & human resources Increase in due to Medicare Increase in due to department of health & human resources Increase in Inventories (Increase) decrease in prepaid expenses		7,146 0 0 671,768 90,910 (45,633) 9,218		12,611 246,881 1,183,061 50,419 94,090 (37,734) (43,602)

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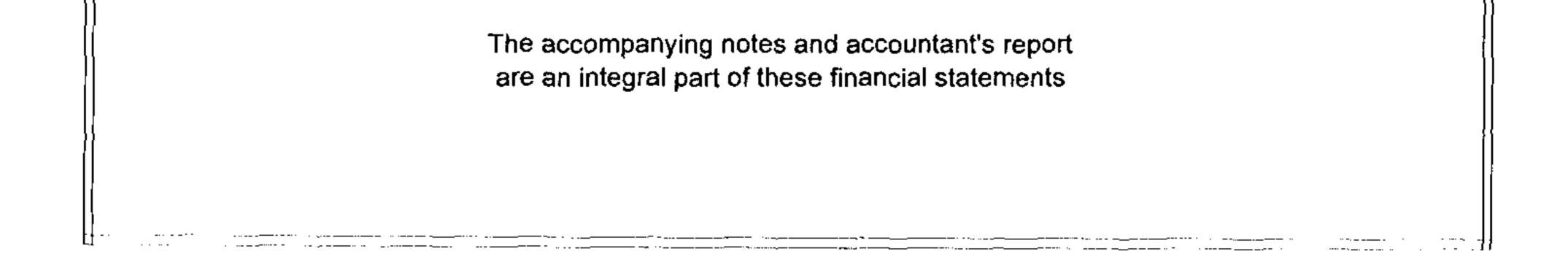


	Exhibit Page 1 of
HOSPITAL SERVICE DISTRICT NO. 1 of St. Mary Parish FRANKLIN FOUNDATION HOSPITAL, IN Franklin, Louisiana	
FRANKLIN IMAGING, INC. BALANCE SHEET (UNAUDITED)	DECEMBER 31, 1997
ASSETS	
CURRENT ASSETS	
Cash	\$ 2,621
Accounts Receivable Less: Estimated Uncollectibles	
and Allowances of \$4,219	22,989
Inventory-stock	20,208
Inventory-rental equipment net of	0.050
accumulated depreciation TOTAL CURRENT ASSETS	3,352 \$ 49,170
	· · · · · · · · · · · · · · · · · · ·
INVESTMENTS	▲ <u></u>
Franklin Imaging Center Partnership	\$ 64,738
PROPERTY, PLANT AND EQUIPMENT	\$ 36,749
Less: Accumulated Depreciation	18,375
NET PROPERTY, PLANT & EQUIPMENT	\$ 18,374
TOTAL ASSETS	<u>\$</u> 132,282
LIABILITIES AND STOCKHOLDERS' EQUI	IY
CURRENT LIABILITIES	<b>A A A A A A A A A A</b>
Accrued Expenses	\$ 1,107
LONG-TERM LIABILITIES	
Due to Franklin Foundation Hospital	<u>\$</u> 164,556
TOTAL LONG-TERM LIABILITIES	\$ 165,663
STOCKHOLDERS' EQUITY	
Capital Stock	\$ 10,000
Retained Earnings	(43,381
TOTAL STOCKHOLDERS' EQUITY	\$ (33,381
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 132,282</u>

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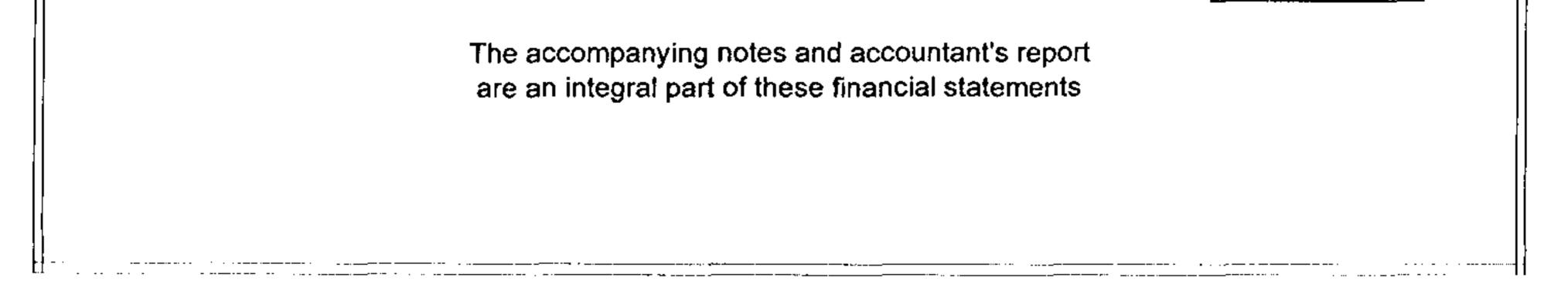


		Exhibit V Page 2 of 4
HOSPITAL SERVICE DISTRICT NO. of St. Mary Parish FRANKLIN FOUNDATION HOSPITAL, Franklin, Louisiana	1	
FRANKLIN IMAGING, INC. STATEMENT OF REVENUE AND EXPENSES (UNAUDITED)	TWELVE MONT	
REVENUE Deltas and Bantala	đ	E2 096
Sales and Rentals	\$	52,086
COST OF SALES		
Inventory-Beginning	\$	22,592
Purchases		17,345
Depreciation Expense-Rental Inventory		19,199
Total	\$	59,136
Inventory-Ending		20,208
COST OF SALES	\$	38,928
GROSS PROFIT	\$	13,158
OPERATING EXPENSES		
Salaries and Wages		22,178
Supplies		1,663
Taxes & Licenses		1,008
Taxes-Payroll		2,536
Utilities		1,491
Maintenance Contract		1,890
Miscellaneous		1,958
Depreciation Red Debt Evenence		7,350
Bad Debt Expenses		2,874
TOTAL OPERATING EXPENSES NCOME (LOSS) FROM OPERATIONS	<u>.</u> \$	42,948 (29,790)
OTHER REVENUE		
Partnership Income	\$	55,275
Interest Income (Partnership)		710
TOTAL OTHER REVENUE	\$	55,985

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

			Exhibit V
		l	Page 3 of 4
HOSPITAL SERVICE DISTRICT NO. 1 of St. Mary Parish FRANKLIN FOUNDATION HOSPITAL, INC Franklin, Louisiana	•		
FRANKLIN IMAGING, INC. RETAINED EARNINGS (UNAUDITED)			IS ENDED 31, 1997
Balance (Deficit) Beginning		\$	(69,576)
Incorne (Loss) for Period			26,195
Balance (Deficit) Ending		\$	(43,381)



	ing notes and accountant's r part of these financial statem		
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		Exhibit V
		Page 4 of 4
HOSPITAL SERVICE DISTRICT NO. 1		•
of St. Mary Parish		
FRANKLIN FOUNDATION HOSPITAL, IN	IC.	
Franklin, Louisiana		
FRANKLIN IMAGING, INC.	TWELVE MONT	HS ENDED
STATEMENT OF CASH FLOWS (UNAUDITED)	DECEMBER	31, 1997
Cash flows from operating activities		
Cash received from customers	\$	63,247
Cash paid to employee		(22,178)
Cash paid to suppliers		(43,665)
Net cash used from operations	\$	(2,596)
Cash flows from financing activities		4 - 4 - 4 - 4
Loan from Franklin Foundation Hospital	·	1,346
Net decrease in cash	\$	(1,250)
Cash at beginning of year		3,871
Cash at end of year	\$	2,621
Reconcilation of Excess Revenues over (under) Expenses		
Net operating income	\$	26,195
Adjustments to reconcile net income and net		
cash provided (used) by operations:		
Depreciation-equipment		7,350
Decrease in accounts receivable		14,035
Decrease in inventory-stock		2,384
Decrease in inventory-rental equipment		3,943
Increase in accrued expenses		(518)
Partnership income not distributed	·	(55,985)
	\$	(28,791)
Net cash used from operations	\$	(2,596)

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Exhibit VI Page 1 of 12

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

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, <u>Health Care</u> <u>Organizations</u>.

<u>Method of Accounting</u>. 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.

<u>Fund Accounting</u>. 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 -

<u>Operating Funds</u>. 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 -

<u>Specific Purpose Funds</u>. 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

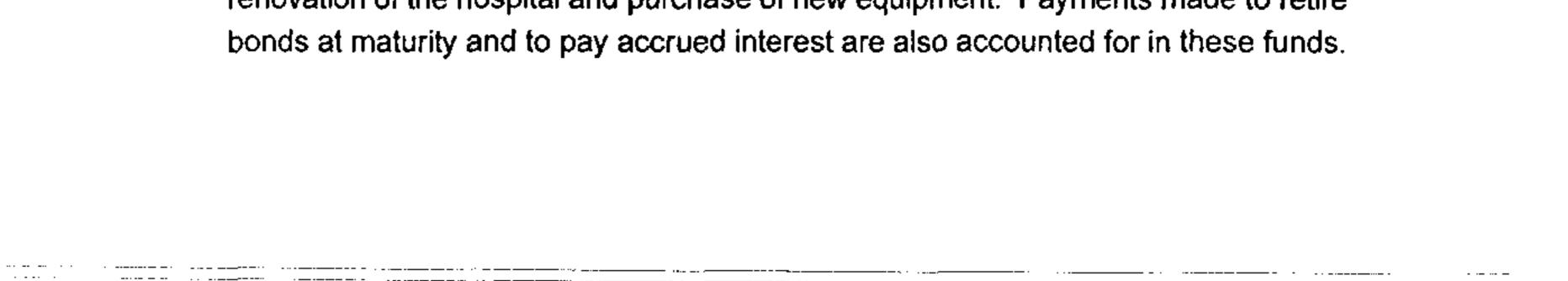


Exhibit VI Page 2 of 12

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

### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

NOTE 1 - Continued

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

<u>Property, Buildings and Equipment</u>. Property, buildings and equipment are maintained on the basis of original cost. Interest on bonded debt during the construction period from 1966 through 1968 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	15-50 Years
Equipment	4-15 Years

<u>Allowance for Doubtful Accounts</u>. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for 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 uncollectiblity of the particular receivable.

Bad debt expense, charity allowances and other allowances after recoveries was \$ 877,769 for 1998

nd \$887,841 for 1997. Uncollectible accounts written off were \$622,266 for 1998 and \$642,748 for
997.

Exhibit VI Page 3 of 12

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

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### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30. 1998

### NOTE 1 - Continued

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

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

<u>Patient Service Revenue</u>. 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 accounts and the related accumulated depreciation follows:

	<u>Cost</u>	Accumulated Depreciation	
<u>September 30, 1998</u> :			
Land	\$ 7,958	\$0	
Buildings & Improvements	7,089,852	3,671,516	
Equipment	5,018,537	3,845,669	
Construction in Progress	<u> </u>	0	
TOTAL	<u>\$12.121.501</u>	<u>\$ 7.517.185</u>	
September 30, 1997:			
Land	\$ 7,958	\$ O	
Buildings & Improvements	6,866,756	3,511,754	
Equipment	<u>4,844,713</u>	<u>3,501,661</u>	
TOTAL	<u>\$11,719,427</u>	<u>\$ 7,013,415</u>	

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#### Exhibit VI Page 4 of 12 **HOSPITAL SERVICE DISTRICT NO. 1** of St. Mary Parish FRANKLIN FOUNDATION HOSPITAL, INC. Franklin, Louisiana NOTES TO FINANCIAL STATEMENTS <u>SEPTEMBER 30, 1998</u> NOTE 3 - Investments-Cash Investments-cash consisted of the following: <u>9-30-98</u> <u>9-30-97</u> Interest Interest Unrestricted Funds: <u>Balance</u> <u>Rate</u> Balance <u>Rate</u> Savings Account-Teche Federal Savings & Loan 4,177 \$ 2.75% 2.75 % 4,063 \$ Money Market Account-Iberia

Moriey Market Account				
Whitney National Bank	8,717	2.75%	8,653	2.75 %
Money Market Account-				
Hibernia National Bank	45,450	3.20%	<u>96.476</u>	3.25 %
TOTAL	<u>\$ 64.199</u>		<u>\$ 114,899</u>	

5,855

1.95%

5,707

2.51%

### NOTE 4 - Inventories

Bank

Inventories consisted of the following at September 30, 1998, and 1997:

	<u>1998</u>	<u>1997</u>
Surgery	\$ 124,174	\$ 124,611
Laboratory	35,846	25,351
Radiology	8,467	8,180
Pharmacy	166,814	147,455
I.V. Therapy	8,000	9,272
Dietary	6,853	6,031
Central Supply	152,935	141,773
Housekeeping	<u>11.760</u>	6.543
TOTAL	<u>\$ 514.849</u>	<u>\$ 469.216</u>

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Exhibit VI Page 5 of 12

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

### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

#### NOTE 5 - 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 40% 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. The partnership is in the process of being dissolved and the computed tomography facility is to be replaced by the Hospital.

During 1995 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, 1998:

Income (loss) from operations 1-1-97 to 12-31-97	\$ (29,790)
Income from partnership 1-1-97 to 12-31-97	55,985
Total	\$ 26,195
Accrued on Hospital's books	
Add back loss accrued for 9-30-97	38,831
Deduct loss accrued for 9-30-98	<u>(30.902</u> )
Income for year ended September 30, 1998	<u>\$.34.124</u>

Franklin Imaging, Inc. has a year end of December 31. The income for the year ended December 30, 1997 is as follows:

Income (loss) from operations 1-1-97 to 12-31-97	\$ (29,790)
Income from partnership, 1-1-97 to 12-31-97	55.985
Income for year ended December 30, 1997	<u>\$ 26.195</u>

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

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## Exhibit VI Page 6 of 12

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

#### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

#### NOTE 6 - Loans Payable

The St. Mary Parish Council has loaned the Hospital a total of \$464,000. The balance due was \$339,177 at September 30, 1998 and \$352,129 at September 30, 1997. 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 treat Parish prisoners and offset the bill against the loans to the Parish Council.

#### NOTE 7 - Leases

Leased property under capital lease consists of various equipment and furniture in the amount of \$1,827,398. This is included in 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 \$143,536 in 1998, and \$164,776 in 1997. 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, 1998 and 1997.

	<u>1998</u>	<u>1997</u>
1998	\$0	\$ 101,551
1999	50.853	<u> </u>
Net minimum lease payments	\$ 50,823	\$ 158,736
Less: Amount representing interest	2.511	13.513
Present value of net minimum lease payments	\$ 48,342	\$ 145,223
Less: Current Portion	48.342	<u>     90.951</u>
Long-Term Portion	<u>\$0</u>	<u>\$ 54,272</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 \$105,556 and \$98,981 for the fiscal years ended September 30, 1998, and 1997, respectively.

NOTE 8 - 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, 1998

Exhibit VI

Page 7 of 12

#### NOTE 9 - Pension Plan

In August, 1973, the Hospital adopted a retirement plan covering all eligible employees who want to participate. The cost to the employee for 1998 is 2% of the first \$68,400 of yearly pay, plus 4% of their pay in excess of \$68,400, if any. The Hospital contributes to the plan 2% of the first \$68,400 of yearly pay of each participating employee plus 4% of yearly pay in excess of \$68,400, if any. The total retirement expense also includes payment by the Hospital for past service costs. Pension costs amounted to \$71,488 in 1998 and \$37,737 in 1997.

### NOTE 10 - Group Hospitalization Insurance

In June of 1982, 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 retroactive adjustment by the program intermediary. Provision for estimated retroactive adjustments for Medicare and Medicaid are provided in the period the related services are rendered.

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

#### NOTES TO FINANCIAL STATEMENTS

#### SEPTEMBER 30. 1998

Exhibit VI

Page 8 of 12

#### NOTE 12 - Management Contract

In July of 1984, the Hospital entered into an agreement with Quorum Health Resources, LLC (formerly HCA 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 \$228,422 for 1998 and \$223,692 for 1997. Reimbursements made to Quorum for compensation and fringe benefits for personnel furnished by Quorum were \$189,761 for 1998 and \$190,606 for 1997.

### NOTE 13 - Contingent Liabilities

<u>Compensated Absences</u>. The Hospital is contingently liable for sick leave to its employees. Sick pay benefits are nonvesting and are not paid in the event of termination of employment. Accrued sick leave as of September 30, 1998 and 1997 was \$15,875 and \$17,429.

<u>Hill Burton Act</u>. U.S. Department of Health and Human Resources has made inquiries into the hospitals compliance with the Hill-Burton Act. The hospital has received notification that it has met it obligation under the Hill-Burton program.

NOTE 14 - Compensation of Governing Board

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

Marshall Guidry Ann Luke Gerald Roy Terry Martin Roland Degeyter Gregg Paul Clegg Caffery, Jr.

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Exhibit VI Page 9 of 12

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

NOTES TO FINANCIAL STATEMENTS

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SEPTEMBER 30, 1998

NOTE 15 - 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, 1998 and 1997, Franklin Foundation Hospital has cash and cash equivalents as follows:

	<u>1998</u>	<u>1997</u>
Demand deposits	\$ 1,233	\$ 3,330
Interest-bearing demand deposits	355,263	101,236
Money market accounts	18,748	18,424
Petty cash	650	650
Total	<u>\$ 375.894</u>	<u>\$ 123.640</u>

At September 30, 1998 and 1997, Franklin Foundation Hospital has cash and cash equivalents in the Bond Sinking Fund:

Interest-bearing demand deposits	\$ 332,414	\$ 397,106
Time deposits	300.000	300.000
Total	<u>\$ 632,414</u>	<u>\$ 697.106</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 on 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. At September 30, 1998, Franklin Foundation Hospital has \$1,137,740 in deposits. These deposits are secured from risk by \$500,000 of federal deposit insurance and \$2,440,820 of pledged securities held by the custodial bank in the name of the fiscal agent bank.

Even though the pledged securities are considered uncollaterialized under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by Franklin Foundation Hospital that the fiscal agent has failed to pay deposited funds upon demand.

## Exhibit VI Page 10 of 12

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

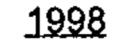
### NOTES TO FINANCIAL STATEMENTS

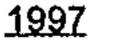
#### SEPTEMBER 30. 1998

#### NOTE 16 - Other Assets

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The hospital has formed a corporation in which it invested \$10,000. This corporation has invested \$8,000 for a 40% 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 \$220,395 at September 30, 1998 and the \$194,428 at September 30, 1997 in other assets is broken down below:





Receivable from partnership	\$ 23,301	\$ 20,467
Receivable from corporation	<u>197.094</u>	<u>    173.961</u>
	\$ 220,395	\$ 194.428

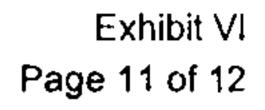
The portion receivable from the corporation represents advances made to help durable medical equipment business get started and operating advances.

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 hospital agreement was breached when he failed to reimburse hospital over \$180,000 in expenses incurred guaranteeing his income and recruiting him. The likelihood of a favorable outcome appears to be at least 75%.

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

Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

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SEPTEMBER 30, 1998

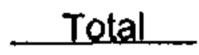
NOTE 18 - Bonds Payable, Series 1991

In September 1991, in order to obtain better interest rates, the hospital issued \$1,750,000 of refunding bonds. The purpose of these bonds was to redeem the bonds issued in 1984 and pay any interest due on the 1984 bonds. The 1991 bonds mature and are payable in varying annual amounts on March 1 each year ending with the year 2004, and have interest rates from 4.7% to 6.6%.

The bonds are due as follows:

Year EndingPrincipalSeptember 30.Payments

Interest Payments



1999	150,000	63,585	213,585
2000	160,000	54,050	214,050
2001	170,000	43,735	213,735
2002	180,000	32,620	212,620
2003	200,000	20,360	220,360
2004	210.000	6,930	216.930
Total	<u>\$ 1.070.000</u>	<u>\$ 221.280</u>	<u>\$1.291.280</u>

Bond issue cost of \$19,468 and original issue discount of \$84,005 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 \$6,720 in 1998 and 1997.

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.

### NOTE 19 - Audit Fees

Audit fees amounted to \$14,250 and \$13,750 for the fiscal years ended September 30, 1998 and 1997, respectively.

#### NOTE 20 - Legal Fees

L	egal fees amounted to \$64,513 and \$51,884 for the fiscal years ended September 30, 1998 and
1	997, respectively.

## Exhibit VI Page 12 of 12

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

#### NOTES TO FINANCIAL STATEMENTS.

#### SEPTEMBER 30, 1998

### NOTE 21 - Other Revenue

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Other revenue consisted of the following at September 30, 1998, and 1997:

	<u>1998</u>	<u>1997</u>
Retail sales of supplies and drugs	\$ 30,716	\$ 34,224
Home health agency	318,154	249,808
Rental income	350	305
Vending machines	2,568	2,209
Telephone commissions	646	634
Cafeteria	82,276	83,355
Miscellaneous	7.430	40.317
TOTAL	<u>\$ 442.140</u>	<u>\$ 410.852</u>

#### NOTE 22 - Other Non-Operating Revenue

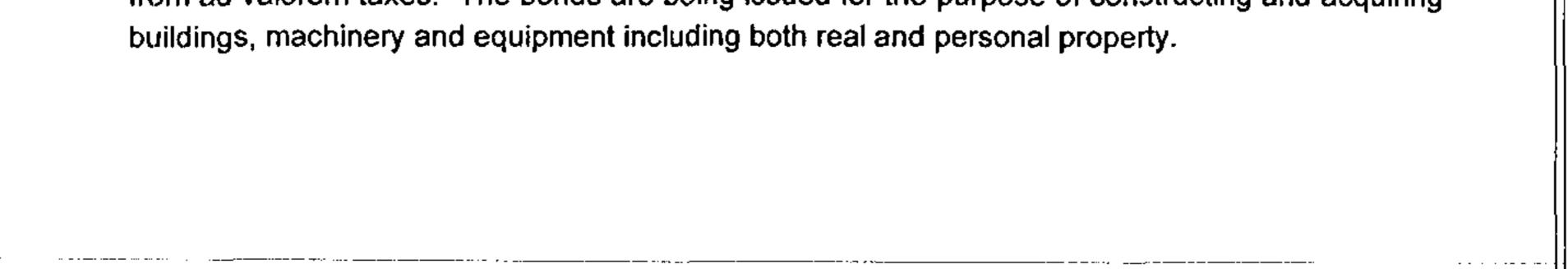
Other non-operating income consisted of the following at September 30, 1998, and 1997:

	<u>1998</u>	<u>1997</u>
Interest income	\$ 23,174	\$ 19,269
Contributions and gifts	<u>92</u>	
TOTAL	<u>\$ 23.266</u>	<u>\$_20.016</u>

### NOTE 23 - Subsequent Events

Franklin Imaging Center Limited Partnership is in the process of being dissolved. Franklin Imaging, Inc. (a corporation owned 100% by Franklin Foundation Hospital) owns 40% of this partnership.

The Hospital has issued \$900,000 of general obligation bonds dated March 1, 1999 with interest rates of 3.30% to 3.80%. Maturity dates of the bonds are from 2000 to 2004. The bonds are to be paid from ad valorem taxes. The bonds are being issued for the purpose of constructing and acquiring



Dressel & Friend

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CERTIFIED PUBLIC ACCOUNTANTS 449 EAST ST. PETER STREET NEW IBERIA, LOUISIANA 70560-3752

> (318) 365-8211 FAX (318) 365-8214

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTS SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTS

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

Board of Commissioners

TERREL P. DRESSEL, CPA

RALPH FRIEND, CPA

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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, 1998 and 1997, and have issued our report thereon dated March 19, 1999, which was qualified due to omission of the year 2000 disclosures that are required by Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Franklin Foundation Hospital'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 those provisions was not an objective of our audit, and 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.

### Internal Control Over Financial Reporting

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In planning and performing our audit, we considered Franklin Foundation Hospital'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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Dressel & Friend, CPA's

New Iberia, Louisiana March 19, 1999

