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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

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OTHER REPORTS

Compliance and 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 APR 14 1999

Dressel & Friend

CERTIFIED PUBLIC ACCOUNTANTS
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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, 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 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 Governmental 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.

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.

Dressel & Friend
DRESSEL & FRIEND
New Iberia, LA

March 19, 1999

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

COMPARATIVE BALANCE SHEETS SEPTEMBER 30, 1998 WITH
COMPARATIVE FIGURES FOR 1997

UNRESTRICTED FUNDS
ASSETS

	<u>CURRENT YEAR</u>	<u>PRIOR YEAR</u>
CURRENT ASSETS		
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	<u>\$ 3,142,256</u>	<u>\$ 2,489,170</u>
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	<u>\$ 4,604,316</u>	<u>\$ 4,706,012</u>
OTHER ASSETS	\$ 220,395	\$ 194,428
TOTAL ASSETS	<u>\$ 7,902,684</u>	<u>\$ 7,291,203</u>

LIABILITIES AND FUND BALANCE

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 Absences	171,488	152,837
Accrued Expenses	425,952	290,325
TOTAL CURRENT LIABILITIES	<u>\$ 2,496,179</u>	<u>\$ 1,677,784</u>
LONG-TERM LIABILITIES		
Loan Payable-St. Mary Parish Council	\$ 339,177	\$ 352,129
Notes Payable	397,281	143,502
Obligations Under Capital Leases	0	54,272
TOTAL LONG-TERM LIABILITIES	<u>\$ 736,458</u>	<u>\$ 549,903</u>
TOTAL LIABILITIES	<u>\$ 3,232,637</u>	<u>\$ 2,227,687</u>
FUND BALANCE (EXHIBIT III)	4,670,047	5,063,516
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 7,902,684</u>	<u>\$ 7,291,203</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 BALANCE SHEETS SEPTEMBER 30, 1998 WITH
COMPARATIVE FIGURES FOR 1997

<u>RESTRICTED FUNDS</u>		
<u>ASSETS</u>		
	CURRENT YEAR	PRIOR YEAR
SPECIFIC PURPOSE FUNDS:		
BONDS SINKING FUND		
Cash	\$ 632,414	\$ 697,106
Original Issue Discount	36,962	43,683
Bond Issue Costs	8,566	10,123
TOTAL	<u>\$ 677,942</u>	<u>\$ 750,912</u>
BONDS PAYABLE FUND		
Amount Available for Retirement of Bonds	\$ 632,413	\$ 697,106
Amount to be Provided from Tax Revenues	437,587	512,894
TOTAL	<u>\$ 1,070,000</u>	<u>\$ 1,210,000</u>
TOTAL SPECIFIC PURPOSE FUNDS	<u>\$ 1,747,942</u>	<u>\$ 1,960,912</u>
<u>LIABILITIES AND FUND BALANCE</u>		
SPECIFIC PURPOSE FUNDS:		
BONDS SINKING FUND		
Bond Interest Payable	\$ 5,680	\$ 6,380
Fund Balance (Exhibit III)	672,262	744,532
TOTAL	<u>\$ 677,942</u>	<u>\$ 750,912</u>
BONDS PAYABLE FUND		
Bonds Payable-Series 1991-Current	\$ 150,000	\$ 140,000
Bonds Payable-Series 1991-Long Term	920,000	1,070,000
TOTAL	<u>\$ 1,070,000</u>	<u>\$ 1,210,000</u>
TOTAL SPECIFIC PURPOSE FUNDS	<u>\$ 1,747,942</u>	<u>\$ 1,960,912</u>

The accompanying notes and accountant's report
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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 YEAR ENDED SEPTEMBER 30, 1998 WITH COMPARATIVE FIGURES FOR 1997

	CURRENT YEAR	PRIOR 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
Rehabilitation revenue	2,068,116	1,496,668
Total patient service revenue	<u>\$ 21,854,567</u>	<u>\$ 18,964,349</u>
Other revenue	442,140	410,852
Total gross revenue	<u>\$ 22,296,707</u>	<u>\$ 19,375,201</u>
Deductions from gross revenue		
Contractual adjustments	\$ 9,505,054	\$ 7,697,052
Other	855,228	461,653
Total deductions from gross revenue	<u>\$ 10,360,282</u>	<u>\$ 8,158,705</u>
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	865,920
Fees-other	1,536,879	1,906,092
Supplies	1,583,458	1,557,884
Utilities	361,830	369,736
Repairs & maintenance	219,752	215,500
Leases & rentals	105,556	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	<u>\$ 12,540,973</u>	<u>\$ 11,762,131</u>
Depreciation	503,770	498,163
Total operating expenses	<u>\$ 13,044,743</u>	<u>\$ 12,260,294</u>
Loss from operations	<u>\$ (1,108,318)</u>	<u>\$ (1,043,798)</u>

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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	YEAR ENDED SEPTEMBER 30, 1998 WITH COMPARATIVE FIGURES FOR 1997	
	CURRENT YEAR	PRIOR YEAR
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	<u>\$ 714,849</u>	<u>\$ 693,726</u>
Excess of revenues over (under) expenses	<u>\$ (393,469)</u>	<u>\$ (350,072)</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
CHANGES IN FUND BALANCES

YEAR ENDED SEPTEMBER 30, 1998
WITH COMPARATIVE FIGURES FOR 1997

	CURRENT YEAR	PRIOR YEAR
<u>Unrestricted Funds</u>		
Balance at Beginning of Year	\$ 5,063,516	\$ 5,413,588
Excess of Revenues over (under) Expenses (Exhibit II)	(393,469)	(350,072)
Balance at End of Year	<u>\$ 4,670,047</u>	<u>\$ 5,063,516</u>
<u>Restricted Funds</u>		
Specific Purpose Funds:		
Bonds Sinking Fund		
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	(1,557)	(1,557)
Bank and Other Charges	(13)	(12)
Balance at End of Year	<u>\$ 672,262</u>	<u>\$ 744,532</u>

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

COMPARATIVE STATEMENT OF CASH FLOWS OF UNRESTRICTED FUNDS	YEAR ENDED SEPTEMBER 30, 1998 WITH COMPARATIVE FIGURES FOR 1997	
	CURRENT YEAR	PRIOR 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

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

COMPARATIVE STATEMENT OF CASH FLOWS
OF UNRESTRICTED FUNDS

YEAR ENDED SEPTEMBER 30, 1998
WITH COMPARATIVE FIGURES FOR 1997

	CURRENT YEAR	PRIOR YEAR
RECONCILIATION OF EXCESS REVENUES OVER (UNDER) EXPENSES TO NET CASH PROVIDED BY OPERATING 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)
Decrease in other receivable	7,146	12,611
Decrease in due from Medicare	0	246,881
Decrease in due from department of health & human resources	0	1,183,061
Increase in due to Medicare	671,768	50,419
Increase in due to department of health & human resources	90,910	94,090
Increase in Inventories	(45,633)	(37,734)
(Increase) decrease in prepaid expenses	9,218	(43,602)
Decrease in accounts payable	(19,558)	(581,863)
Increase in accrued compensated absenses	18,651	14,180
Increase in accrued expenses	135,627	53,521
	<u>\$ 991,256</u>	<u>\$ 1,138,960</u>
 Net cash provided (used) by operations	 <u>\$ 597,787</u>	 <u>\$ 788,888</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.
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 accumulated depreciation	3,352
TOTAL CURRENT ASSETS	\$ 49,170

INVESTMENTS

Franklin Imaging Center Partnership	\$ 64,738
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PROPERTY, PLANT AND EQUIPMENT

Less: Accumulated Depreciation	18,375
NET PROPERTY, PLANT & EQUIPMENT	\$ 18,374

TOTAL ASSETS

\$ 132,282

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accrued Expenses	\$ 1,107
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LONG-TERM LIABILITIES

Due to Franklin Foundation Hospital	\$ 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

\$ 132,282

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 REVENUE AND EXPENSES (UNAUDITED)

TWELVE MONTHS ENDED
DECEMBER 31, 1997

REVENUE		
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		7,350
Bad Debt Expenses		2,874
TOTAL OPERATING EXPENSES	\$	42,948
INCOME (LOSS) FROM OPERATIONS	\$	(29,790)
OTHER REVENUE		
Partnership Income	\$	55,275
Interest Income (Partnership)		710
TOTAL OTHER REVENUE	\$	55,985
NET OPERATING LOSS	\$	26,195

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.
RETAINED EARNINGS (UNAUDITED)

TWELVE MONTHS ENDED
DECEMBER 31, 1997

Balance (Deficit) Beginning	\$ (69,576)
Income (Loss) for Period	<u>26,195</u>
Balance (Deficit) Ending	<u>\$ (43,381)</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 (UNAUDITED)

TWELVE MONTHS ENDED
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	<u>\$ (2,596)</u>
 Cash flows from financing activities	
Loan from Franklin Foundation Hospital	<u>1,346</u>
 Net decrease in cash	<u>\$ (1,250)</u>
 Cash at beginning of year	<u>3,871</u>
 Cash at end of year	<u><u>\$ 2,621</u></u>
 Reconciliation 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)
	<u>\$ (28,791)</u>
 Net cash used from operations	<u><u>\$ (2,596)</u></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, 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, 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, 1998

NOTE 1 - 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 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

Allowance for Doubtful Accounts. 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 uncollectibility of the particular receivable.

Bad debt expense, charity allowances and other allowances after recoveries was \$ 877,769 for 1998 and \$887,841 for 1997. Uncollectible accounts written off were \$622,266 for 1998 and \$642,748 for 1997.

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

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 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.

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 accounts and the related accumulated depreciation follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
<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>5,154</u>	<u>0</u>
TOTAL	<u>\$12,121,501</u>	<u>\$ 7,517,185</u>
 <u>September 30, 1997:</u>		
Land	\$ 7,958	\$ 0
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>

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

NOTE 3 - Investments-Cash

Investments-cash consisted of the following:

	<u>9-30-98</u>		<u>9-30-97</u>	
Unrestricted Funds:	<u>Balance</u>	<u>Interest Rate</u>	<u>Balance</u>	<u>Interest Rate</u>
Savings Account-Teche Federal Savings & Loan	\$ 4,177	2.75%	\$ 4,063	2.75 %
Money Market Account-Iberia Bank	5,855	1.95%	5,707	2.51%
Money Market Account Whitney National Bank	8,717	2.75%	8,653	2.75 %
Money Market Account-Hibernia National Bank	<u>45,450</u>	3.20%	<u>96,476</u>	3.25 %
TOTAL	<u>\$ 64,199</u>		<u>\$ 114,899</u>	

NOTE 4 - Inventories

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>	<u>6,543</u>
TOTAL	<u>\$ 514,849</u>	<u>\$ 469,216</u>

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	<u>55,985</u>
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	<u>55,985</u>
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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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	<u>50,853</u>	<u>57,185</u>
Net minimum lease payments	\$ 50,823	\$ 158,736
Less: Amount representing interest	<u>2,511</u>	<u>13,513</u>
Present value of net minimum lease payments	\$ 48,342	\$ 145,223
Less: Current Portion	<u>48,342</u>	<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
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Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

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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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

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

Compensated Absences. 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.

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 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.

HOSPITAL SERVICE DISTRICT NO. 1
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Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

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	<u>650</u>	<u>650</u>
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	<u>300,000</u>	<u>300,000</u>
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 uncollateralized 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.

HOSPITAL SERVICE DISTRICT NO. 1
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Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

NOTE 16 - Other Assets

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:

	<u>1998</u>	<u>1997</u>
Receivable from partnership	\$ 23,301	\$ 20,467
Receivable from corporation	<u>197,094</u>	<u>173,961</u>
	<u>\$ 220,395</u>	<u>\$ 194,428</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 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%.

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

NOTES TO FINANCIAL STATEMENTS

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:

<u>Year Ending</u> <u>September 30.</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u>
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	<u>210,000</u>	<u>6,930</u>	<u>216,930</u>
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

Legal fees amounted to \$64,513 and \$51,884 for the fiscal years ended September 30, 1998 and 1997, respectively.

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

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	<u>7,430</u>	<u>40,317</u>
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>	<u>747</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 buildings, machinery and equipment including both real and personal property.

Dressel & Friend

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

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, 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

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.

Dressel & Friend

Dressel & Friend, CPA's

New Iberia, Louisiana

March 19, 1999