

FRANKLIN MEDICAL CENTER
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FRANKLIN MEDICAL CENTER

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

APRIL 30, 1999, 1998 and 1997

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 NOV 10 1999

Marvin H. Easley, CPA
1006 Calais Circle Alexandria, LA 71303

HOSPITAL SERVICE DISTRICT NO. 1
PARISH OF FRANKLIN, STATE OF LOUISIANA
("FRANKLIN MEDICAL CENTER")
GENERAL PURPOSE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 1999, 1998 and 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these general purpose financial statements based on my audits.

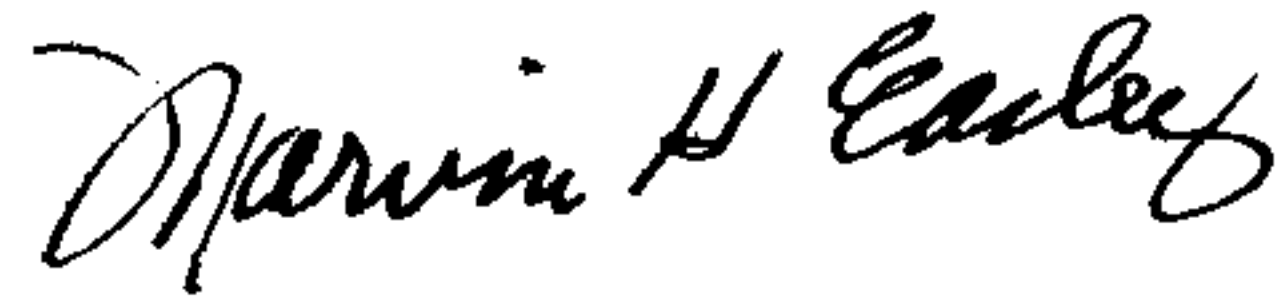
I conducted my audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial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

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Franklin Medical Center, as of and for the years ended April 30, 1999, 1998 and 1997, and the results of its operations, changes in fund balance, and cash flow for the years then ended, in conformity with generally accepted accounting principles.

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

In accordance with Governmental Auditing Standards, I have also issued my report dated July 31, 1999, on my consideration of the District's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grants.

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

A handwritten signature in black ink, reading "Marvin H. Caskey". The signature is written in a cursive style with a large initial 'M' and a long, sweeping underline.

July 31, 1999

FRANKLIN MEDICAL CENTER
STATEMENTS OF OPERATIONS - UNRESTRICTED FUND
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Revenue			
Patient service revenue	\$11,954,622	\$12,783,664	\$12,556,743
Grants	0	45,403	25,000
Non-restricted contributions	0	6	100
Other revenue	217,929	223,950	190,858
Total Revenue	12,172,551	13,053,023	12,772,701
Operating Expenses			
Salaries	4,381,388	4,250,985	3,947,682
Benefits and payroll taxes	810,250	737,291	706,866
Pension plan	83,882	48,712	55,147
Supplies and drugs	830,427	860,688	783,003
Professional fees	1,847,952	2,198,073	2,348,582
Other expenses	2,699,773	2,843,209	2,643,428
Insurance	163,860	227,165	223,668
Interest expense	0	0	2,004
Depreciation and amortization	575,991	559,803	589,128
Provision for bad debts	1,139,592	837,905	681,991
Total Operating Expenses	12,533,115	12,563,831	11,981,499
Operating Income (Loss)	(360,564)	489,192	791,202
Nonoperating Income			
Interest Income	197,889	199,937	159,418
Excess of Revenues over Expenses	(\$162,675)	\$689,129	\$950,620

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
BALANCE SHEETS - UNRESTRICTED FUND
APRIL 30, 1999, 1998 AND 1997

ASSETS	1999	1998	1997
Current Assets			
Cash and cash equivalents	\$371,675	\$653,191	\$623,398
Short-term investments	1,756,374	2,095,607	2,461,438
Accounts receivable, net of allowance for uncollectibles	2,491,943	2,398,571	1,934,367
Inventory	276,363	282,660	275,409
Prepaid expenses	60,740	102,505	107,932
Total Current Assets	4,957,095	5,532,534	5,402,544
Noncurrent Assets			
Property, plant and equipment	11,880,388	11,137,148	9,991,884
Accumulated depreciation	(6,233,005)	(5,672,468)	(5,112,688)
Net Property, plant and equipment	5,647,383	5,464,680	4,879,196
Assets whose use is limited	846,910	943,112	800,043
Total Assets	11,451,388	11,940,326	11,081,783
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	448,781	767,312	611,473
Accrued salary and payroll taxes	134,755	135,247	103,275
Accrued vacation payable	123,852	131,092	133,589
Current portion of long-term liabilities	0	0	5,400
Total Current Liabilities	707,388	1,033,651	853,737
Long-term Liabilities			
Capital lease obligations	0	0	10,500
Total Liabilities	707,388	1,033,651	864,237
Contingencies (note 13)	--	--	--
Fund Balance - Unrestricted	10,744,000	10,906,675	10,217,546
Total Liabilities and Fund Balance	\$11,451,388	\$11,940,326	\$11,081,783

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENT OF CHANGES IN FUND BALANCE - UNRESTRICTED
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

Balance, April 30, 1996	\$9,266,926
Excess of revenue over expenses for the year ended April 30, 1997	950,620
Balance, April 30, 1997	10,217,546
Excess of revenue over expenses for the year ended April 30, 1998	689,129
Balance, April 30, 1998	10,906,675
Excess of revenue over expenses for the year ended April 30, 1999	(162,675)
Balance, April 30, 1999	\$10,744,000

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENT OF CASH FLOW - UNRESTRICTED FUND
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
CASH FLOW FROM OPERATING ACTIVATES			
Operating income	(\$1,500,156)	\$489,192	\$791,202
Interest expense (capital financing activity)	0	0	2,004
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	560,537	559,780	589,128
Provision for bad debts	1,139,592	837,905	681,991
Changes in current assets:			
Accounts receivable	(93,372)	(1,302,109)	(108,178)
Inventory	6,297	(7,251)	(29,604)
Prepaid expenses	41,765	5,427	41,812
Short-term investments	339,233	365,831	(1,891,050)
Changes in current liabilities:			
Accounts payable and accrued expenses	(318,531)	155,839	(250,901)
Accrued salary and payroll taxes	(492)	31,972	6,371
Accrued vacation payable	(7,240)	(2,497)	(16,929)
Net Cash Provided by Operating Activities	167,633	1,134,089	(184,154)
CASH FLOW FROM INVESTING ACTIVITIES			
Limited use assets	96,202	(143,069)	392,424
Interest earned	197,889	199,937	159,418
Net Cash Provided by Investing Activities	294,091	56,868	551,842
CASH FLOW FROM CAPITAL AND RELATED FINANCING			
Purchase of building and equipment	(752,901)	(1,145,264)	(420,197)
Proceeds from disposal of equipment	9,661	0	0
Principal paid on long-term debt	0	(15,900)	(547,028)
Interest paid on long-term debt	0	0	(2,004)
Net cash provided by capital and related financing	(743,240)	(1,161,164)	(969,229)
Net Change in Cash	(281,516)	29,793	(601,541)
Cash and equivalents, beginning of year	653,191	623,398	1,224,939
Cash and equivalents, beginning of year	\$371,675	\$653,191	\$623,398

See accompanying notes to financial statements.

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

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

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

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

Nature of Business

The District provides outpatient, skilled nursing, emergency room, home health, inpatient acute and geriatric psychiatric services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conforms to generally accepted accounting principles as applicable to governments. A summary of the more significant policies follows.

Financial Reporting Entity

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

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Proprietary Fund Type

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

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Accounting for Governmental Fund Types

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

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

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

Statement of Revenue and Expenses

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

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 3 - CASH AND CASH EQUIVALENTS

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

The District's investment policy requires excess funds to be invested in certificates of deposit (secured by Federal depository insurance or pledges of state of Federal securities) at the highest available interest rate obtained from three competing banks in Franklin Parish, Louisiana. At April 30, 1999, cash and cash equivalents, short term investments and assets whose use is limited exceeded said security.

NOTE 4 - ACCOUNTS RECEIVABLE

Patient service revenue is reported at the estimated net realizable amount due from patients, third-party payers and other for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related service are rendered and adjusted in future periods as final settlements are determined.

The District has agreements with third-party payers that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-part payers follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Swing bed routine services are reimbursed based on a prospectively determined rate per patient day and other services including home health and geriatric psychiatry are reimbursed based upon a cost reimbursement methodology (with home health being subject to limits on a cost per visit basis and geriatric psychiatry being subject to a target amount per discharge). The District's classification of patients and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. The District's cost reports have been examined by the Medicare fiscal intermediary through April 30, 1996.

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 4 - ACCOUNTS RECEIVABLE (continued)

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate (subject to a maximum per patient for inpatient services). Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through April 30, 1996.

Others - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payments methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The District's estimate of collect ability is applied to accounts receivable to establish an allowance for uncollectible accounts. That allowance for estimated uncollectibles is as follows at April 30, 1999, 1998 and 1997 respectively: \$738,697, \$860,000 and \$901,775.

In June 1997, the State of Louisiana enacted legislation to provide funds to small rural hospitals, which met certain criteria. The District received reimbursement of \$449,450 (based on 1997 uncompensated cost) and \$277,504 (based on 1996 uncompensated cost) in its years ended April 30, 1999 and 1998 respectively. Reimbursement under this program for 1999 and 1998 uncompensated cost has not been accrued due to the uncertainty related to continued reimbursement.

The District provides a substantial portion of its services (80 % in 1999, 79% in 1998 and 81% in 1997) to patients covered by the Medicare and Medicaid programs at discounted rates. In addition to its dependence upon these programs and their rules related to covered services and rates of reimbursement, the District is economically dependent upon its geographic service area and its limited number of staff physicians.

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, the related charges are not reported as revenue. The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent services statistics. For 1999, 1998 and 1997, charges foregone, based on established rates, are \$11,335, \$17,194 and \$24,084; the estimated cost of providing that care is \$11,494, \$10,798 and \$14,627.

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 5 - INVENTORY

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

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The basis of property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The District uses straight-line depreciation for all assets. The useful lives of plant and equipment for the purpose of computing depreciation are as follows: Buildings - 25 to 40 years; Machinery and equipment - 5 to 30 years; and Furniture and fixtures - 5 to 15 years. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Effective September 29, 1992, the Police Jury renewed its lease to the District. The lease has a term of 30 years and may be terminated at any time by mutual consent of both entities. The lease, which provides assets with a cost of \$2,058,716 (included in the District's financial statements) at April 30, 1999, does not call for the District to pay consideration to the Police Jury. These assets were obtained in part with funds from a Hill-Burton program grant of \$763,844. The Hill-Burton program has the ability to recapture a portion of the depreciated replacement cost of these assets should the facility be closed or not used by a qualified recipient.

A summary of Property, Plant and Equipment is provided below.

Property, Plant and Equipment	1999	1998	1997
Land	\$177,500	\$177,500	\$177,500
Buildings	3,934,800	3,934,800	3,934,800
Building improvements	1,673,934	1,524,897	1,485,627
Furniture and equipment	5,038,974	4,862,880	4,392,935
Construction in progress	1,055,180	637,071	1,022
Total	\$11,880,388	11,137,148	9,991,884
Accumulated Depreciation			
Buildings	\$1,993,864	1,892,373	1,790,883
Building improvements	576,936	488,339	398,200
Furniture and equipment	3,662,205	3,291,756	2,923,605
Total	\$6,233,005	\$5,672,468	\$5,112,688

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 7 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include certificates of deposit whose use is limited by the District's Board of Commissioners for various purposes. A summary for 1999, 1998 and 1997 respectively follows. Capital improvements: \$367,858, \$343,435 and \$326,027; Contingencies: \$102,861, \$270,384 and \$256,543; and Self-insured unemployment: \$376,191, \$329,293 and \$217,473.

NOTE 8 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued vacation pay of \$123,852, \$131,092 and \$133,589 in 1999, 1998 and 1997, respectively. It is impracticable to estimate the amount of compensation for sick pay and accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of sick pay when paid to employees.

NOTE 9 - PENSION PLAN

The District has a defined contribution pension plan. All employees over age 21 who work at least 1,040 hours per year and who have completed one year of service are covered under the plan. The plan is an annuity contract funded individually for each participant. Employees can elect to contribute up to 22% of their salaries and the District matches the first 3% of the employees contributions.

NOTE 10 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patients' Compensation Fund established by the State of Louisiana to provide professional medical liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. The constitutionality of this legislation has not been tested by the courts although the Louisiana Supreme Court has decided that this limit does not apply in cases of strict liability.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are redetermined utilizing actual losses and expenses of the fund. Each year's retroactive assessment, if any, may not exceed the District's premium due during such plan year. The trust fund presumes to be a

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 10 - PROFESSIONAL LIABILITY RISK (continued)

“Grantor Trust” and, accordingly, income and expenses are pro-rated to members hospitals. The District has not included these allocation or equity in the trust in its financial statements which reflect cash transactions with the trust fund as insurance expense or a reduction thereof.

During 1999, the District changed its professional liability coverage from an “occurrence” type, where coverage is provided for losses incurred in a period regardless of when the claim is made, to a “claims made” policy, where coverage is provided for losses incurred only during the policy period. Accordingly, the District is at risk for claims made after the policy period if coverage is not obtained in subsequent periods.

NOTE 11- CONTINGENCIES

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

The principal contingencies are described below.

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

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

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

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 11 - CONTINGENCIES (continued)

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

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

Medical Benefits Trust - On April 1, 1988, the District established a medical benefits trust. The District contributes amounts that it deems sufficient to cover the health benefit cost of its full-time employees. Employees are allowed to contribute to the trust through payroll deductions in order to obtain dependent coverage. The trust purchases "excess" insurance coverage that provides for payment of individual claims in excess of \$17,500 or aggregate annual claims in excess of \$299,706. The trust pays all other claims from its general funds. The trust agreement provides that should it not have sufficient funds to cover its obligations, the District is obligated to fund the shortfall.

Self-insured Unemployment Compensation - Effective January 1, 1995, the District elected to become self-insured for unemployment compensation. The District is contributing 2.65% of salaries into a fund to cover all claims and management fees.

Litigation - Various claims in the ordinary course of business are pending against the District. Two breach of contract suits are in process against the District. Legal council is of the opinion that there is relatively low likelihood of an adverse decision with respect to the first (which in the event of an adverse judgement could range from \$50,000 to \$150,000). The maximum amount that could be recovered in the second suit is \$140,000, however council does not believe that there is a likelihood of an adverse judgment.

**FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 1999, 1998 AND 1997**

NOTE 11 - CONTINGENCIES (continued)

Year 2000 - The District's management is aware that many older computer systems are unable to handle dates in the year 2000 and thereafter, causing existing equipment and software to be obsolete. The District's management has assessed the need and cost for upgrades and/or replacements, done the necessary re-mediation to the extent it is foreseeable and is the process of validation and testing. The ability of outside organizations to deal with this matter could have a financial impact on the District. The cost of this outside impact cannot be reasonably estimated. Because of the unprecedented nature of the Year 2000 issue, its effects and the success related re-mediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District will be Year 2000 ready, that its re-mediation efforts will be successful or that parties with whom the District does business will be Year 2000 ready.

NOTE 12 - COMMISSIONERS

The following commissioners served the District without compensation during the year ended April 30, 1999.

Tom Kerrigan
Jack Hammons
Rebecca Singleton
Joe M. Gravelle
Woodrow Bell

FRANKLIN MEDICAL CENTER
 SCHEDULE OF PATIENT STATISTICS
 YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Number of patient days of care			
Medicare	8,137	8,958	10,744
Medicaid	1,572	2,140	2,036
Other	1,604	1,166	1,033
Total	11,313	12,264	13,813
Number of Patient Discharges			
Medicare	1,504	1,557	1,597
Medicaid	449	581	564
Other	311	385	374
Total	2,264	2,523	2,535
Average Length of Patient Stay			
Medicare	5.4	5.8	6.7
Medicaid	3.5	3.7	3.6
Other	5.2	3.0	2.8
Total	5.0	4.9	5.4
Number of Surgical Cases	895	849	787
Number of Emergency Room Visits	10,320	10,954	9,940

FRANKLIN MEDICAL CENTER
SCHEDULE OF PATIENT SERVICE REVENUE
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Daily Patient Services:			
Routine services	\$1,819,330	\$1,556,315	\$1,510,130
Intensive care	376,425	278,775	326,900
Psychiatric	1,925,985	1,603,325	2,526,900
Total daily patients services	4,121,740	3,438,415	4,363,930
Other Professional Services:			
Operating room			
Inpatient	215,239	125,515	111,996
Outpatient	324,747	308,690	274,324
	539,986	434,205	386,320
Anesthesia			
Inpatient	170,508	165,138	167,010
Outpatient	172,674	164,682	150,606
	343,182	329,820	317,616
Recovery room			
Inpatient	30,550	15,439	14,174
Outpatient	49,350	25,155	21,104
	79,900	40,594	35,278
Pharmacy			
Inpatient	2,451,798	2,624,856	2,459,634
Outpatient	862,076	524,503	297,555
	3,313,874	3,149,359	2,757,189
Respiratory care			
Inpatient	1,958,769	1,766,731	1,660,419
Outpatient	104,298	43,806	26,076
	2,063,067	1,810,537	1,686,495
Emergency room			
Inpatient	137,165	74,620	66,400
Outpatient	688,110	358,555	310,330
	825,275	433,175	376,730
Emergency room physicians			
Inpatient	145,398	144,132	164,541
Outpatient	676,659	597,886	566,090
	822,057	742,018	730,631
Central Supply			
Inpatient	1,273,519	1,863,108	2,104,801
Outpatient	334,499	411,386	335,749
	\$1,608,018	\$2,274,494	\$2,440,550

FRANKLIN MEDICAL CENTER
SCHEDULE OF PATIENT SERVICE REVENUE
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

Other Professional Services (continued)	1999	1998	1997
Laboratory			
Inpatient	\$637,251	\$683,878	\$749,004
Outpatient	370,285	346,294	362,891
	1,007,536	1,030,172	1,111,895
Blood			
Inpatient	42,436	39,916	38,778
Outpatient	22,507	6,407	1,830
	64,943	46,323	40,608
EKG			
Inpatient	208,015	213,628	205,482
Outpatient	111,993	170,569	146,467
	320,008	384,197	351,949
Ambulance			
Inpatient	1,340	4,460	3,045
Outpatient	24,930	49,040	27,782
	26,270	53,500	30,827
Radiology			
Inpatient	235,404	421,882	444,392
Outpatient	478,284	658,281	580,087
	713,688	1,080,163	1,024,479
Ultrasound			
Inpatient	33,665	14,677	17,500
Outpatient	52,845	24,846	25,470
	86,510	39,523	42,970
CT Scan			
Inpatient	315,842	269,463	281,060
Outpatient	355,710	288,852	224,967
	671,552	558,315	506,027
Nuclear Medicine			
Inpatient	51,698	31,890	34,320
Outpatient	114,341	47,993	56,043
	166,039	79,883	90,363
Physical Therapy			
Inpatient	63,034	43,237	51,104
Outpatient	604	0	3,448
	\$63,638	\$43,237	\$54,552

FRANKLIN MEDICAL CENTER
SCHEDULE OF PATIENT SERVICE REVENUE
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

Other Professional Services (continued)	1999	1998	1997
Home Health	\$355,114	\$917,500	\$1,019,198
Oncology Outpatients	43,964	27,432	121
Partial-day Psychiatric	299,540	859,200	247,120
Transportation	10,449	8,253	20,412
Total Other Professional Services	13,424,610	14,341,900	13,271,330
Total Patient Service Charges	17,546,350	17,780,315	17,635,260
Deductions from Revenue			
Contractual Allowances	6,029,843	5,256,961	5,036,332
Uncompensated Cost	(449,450)	(277,504)	0
Policy Discounts and Charity Care	11,335	17,194	42,185
	5,591,728	4,996,651	5,078,517
Patient Service Revenue	\$11,954,622	\$12,783,664	\$12,556,743

FRANKLIN MEDICAL CENTER
SCHEDULE OF OTHER OPERATING REVENUE
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Cafeteria Sales	\$40,925	\$44,780	\$45,046
Vending Machines	3,106	2,966	3,179
Physician Office Rent	169,896	169,116	137,042
Medical Records Abstract Fees	6,230	5,916	5,347
Miscellaneous Revenue	(2,228)	1,172	244
	\$217,929	\$223,950	\$190,858

FRANKLIN MEDICAL CENTER
SCHEDULE OF OPERATING EXPENSES - SALARIES AND BENEFITS
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Salary:			
Personnel	\$24,453	\$23,927	\$22,051
Administration	532,896	508,392	478,047
Plant operating and maintenance	178,463	186,719	182,369
Laundry	0	8,556	23,595
Housekeeping	151,148	150,999	139,323
Dietary and cafeteria	169,265	165,368	147,755
Nursing administration	169,368	160,261	111,403
Central supply	13,560	12,775	11,814
Pharmacy	167,240	167,278	151,976
Medical records	54,836	60,430	52,108
Nursing services, acute care	1,338,274	1,239,811	1,109,284
Nursing services, ICU	361,367	357,114	367,037
Nursing services, Psychiatric	250,831	49,867	0
Operating room	137,672	134,920	149,279
Anesthesiology	4,813	4,828	4,800
Radiology	166,768	173,561	166,889
Respiratory care	134,462	157,608	191,772
Oncology	49,351	40,670	
Emergency room	242,346	236,656	227,932
Home health	200,565	376,294	378,195
Transportation	33,710	34,951	32,053
	4,381,388	4,250,985	3,947,682
Benefits			
Payroll taxes	326,649	315,770	296,834
Hospital insurance	436,653	377,512	303,161
Other	46,948	44,009	106,871
	810,250	737,291	706,866
Total Salaries and Benefits	\$5,191,638	\$4,988,276	\$4,654,548

FRANKLIN MEDICAL CENTER
 SCHEDULE OF OPERATING EXPENSES - PROFESSIONAL FEES
 YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Anesthesiology	\$165,292	\$142,584	\$138,872
Psychiatric	228	257,016	534,190
Radiology	81,224	238,803	223,071
Laboratory	624,490	606,050	557,260
Physical therapy	45,285	42,438	64,118
EKG	26,400	14,130	14,650
Emergency room	904,877	896,652	815,275
Home health	156	400	1,146
	\$1,847,952	\$2,198,073	\$2,348,582

FRANKLIN MEDICAL CENTER
SCHEDULE OF OPERATING EXPENSES - OTHER EXPENSES
YEARS ENDED APRIL 30, 1999, 1998 AND 1997

	1999	1998	1997
Management fees	\$657,477	\$945,208	\$994,324
Miscellaneous service fees	306,721	298,434	252,168
Legal and accounting	41,160	38,247	32,374
Supplies	999,878	898,777	718,976
Minor equipment	31,241	25,828	30,004
Repairs and maintenance	123,594	129,186	106,840
Utilities	210,870	206,068	213,994
Telephone	46,835	47,665	41,885
Travel	21,753	49,891	46,497
Rentals	41,116	42,123	28,417
Education	37,682	24,438	26,379
Dues and subscriptions	49,615	36,719	25,123
Recruitment and advertising	4,584	17,334	19,790
Miscellaneous	127,247	83,291	106,657
	\$2,699,773	\$2,843,209	\$2,643,428

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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
Parish of Franklin
Winnsboro, Louisiana

I have audited the general purpose financial statements of Hospital Service District No. 1, Parish of Franklin, a component unit of the Franklin Parish Police Jury, ("Franklin Medical Center") as of and for the years ended April 30, 1999, 1998 and 1997, and have issued my report thereon dated July 31, 1999. I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Franklin Medical Center's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. As required by the Legislative Auditor for the state of Louisiana, I have also attached a summary of the prior year's management letter along with statements as to the resolution of each comment.

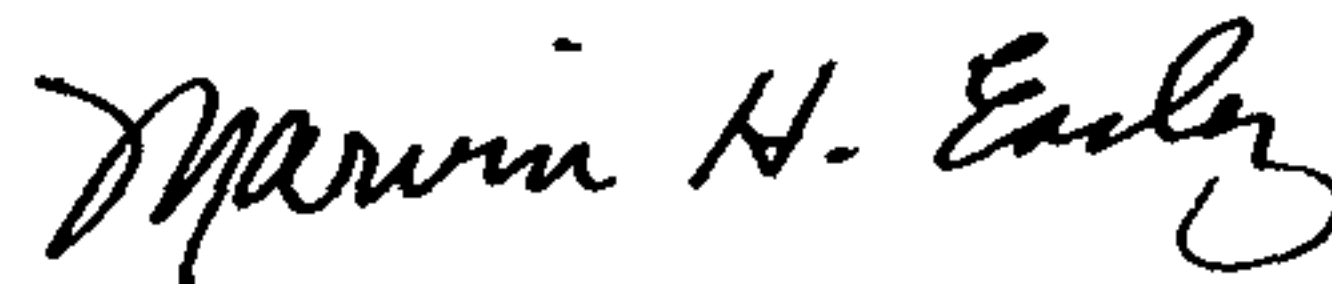
Internal Control Over Financial Reporting

In planning and performing my audit, I considered Franklin Medical Center's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My 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

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

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 auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. As required by the Legislative Auditor for the state of Louisiana, I have also attached a summary of the prior year's management letter along with statements as to the resolution of each comment.

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

A handwritten signature in black ink that reads "Marvin H. Early". The signature is written in a cursive style with a large, looping initial 'M'.

July 31, 1999

**FRANKLIN MEDICAL CENTER
REPORTABLE NONCOMPLIANCE
YEAR ENDED APRIL 30, 1998**

CORPORATE COMPLIANCE PLAN

Condition

The U.S. Health and Human Services Inspector General has recommended that providers, such as the District, establish corporate compliance programs. The District adopted its corporate compliance program on January 29, 1998, and was in the process of implementing it.

Recommendation

Since a financial audit is not designed to examine many of these areas, I recommended that the District ensure that its program includes a compliance audit and that the program should include procedures to ensure that the program becomes a part of daily operations.

Response

The District stated that it will continue to develop its compliance plan.

Resolution

This recommendation was partially resolved. The District has completed the compliance audit and the procedures to ensure that the program becomes a part of daily operations has been partially implemented.