

FRANKLIN MEDICAL CENTER  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
APRIL 30, 2006, 2005 AND 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 11-1-2006



**LESTER, MILLER & WELLS**  
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

**HOSPITAL SERVICE DISTRICT NO. 1**  
**OF THE PARISH OF FRANKLIN, STATE OF LOUISIANA**  
**d/b/a FRANKLIN MEDICAL CENTER**  
**HOSPITAL ENTERPRISE FUND**  
**YEARS ENDED APRIL 30, 2006, 2005 AND 2004**

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Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 1 of Franklin Parish, State of Louisiana d/b/a Franklin Medical Center (the "Medical Center") provides background information and management's analysis of the Medical Center's financial performance for the fiscal years that ended April 30, 2006, 2005, and 2004. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

**Financial Highlights**

Net patient revenue for FY 2006 remained approximately the same as FY 2005 in spite of an overall decline in inpatient activity.

Inpatient daily services (room and board) were down by 4.1% in addition inpatient ancillary services were also down by 8.6% while outpatient ancillary services were up 26.1%.

Rural Health Clinic charges increased by \$1,399,717 or 136.8%. Two new Rural Health Clinics opened during FY 2006. One in St. Joseph, La and the other in Winnsboro, La.

Long-term debt decreased by \$214,922 or 47.5%.

The decline in net assets for FY 2006 from FY 2005 is \$1,395,381, or 15.2%.

Expenses for the year increased by \$1,098,247, or 7.6%. A discussion of significant expenses follows:

Salaries increased by \$733,678 from FY 2005 to FY 2006. Franklin Medical Center increased its rural health clinic operations and started an intensive outpatient program.

Employee benefits including insurance provided for employees and dependents is also a significant expense. Franklin Medical Center provides health insurance for employees without cost and at a nominal cost for dependents.

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Other expenses include Management expenses which are down \$193,422, or 38.2%, while service fees were up by \$210,532 or 58.4%. Utilities were up by \$61,880 or 23.2%

Depreciation and amortization expense is up by \$47,949, or 7.1%. This increase is due to the completion of a roof project and the acquisition of equipment in the radiology department.

**Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center**

**Management's Discussion and Analysis**

**Using this Annual Report**

The Medical Center's financial statements consist of three statements: a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These statements provide information about the Medical Center's activities including resources held the Medical Center.

**The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets**

Both statements report information about Franklin Medical Center's resources and its activities that describe the financial results of the fiscal year and Franklin Medical Center's financial position as of the end of the year. They report Franklin Medical Center's net assets and changes in them.

Net assets are the difference between assets and liabilities. Over time, increases or decreases in Franklin Medical Center's net assets are one indicator of whether Franklin Medical Center's patient base, measure of the quality of services provided, and local, state, and federal economic factors should also be considered.

**The Statement of Cash Flows**

The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and capital and non-capital financing activities. It describes sources of cash, uses of cash, and the change in cash balance during the fiscal year.

**Franklin Medical Center's Net Assets**

Franklin Medical Center's net assets are the difference between assets and liabilities reported in the balance sheet. As discussed under the highlights section, Franklin Medical Center's net assets (inclusive of donated assets) decreased by \$1,395,381. Also see the highlights section for a discussion of increases in total assets, current assets and liabilities (accounts payable). Capital assets and long-term debt are shown in the following table.

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Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

Franklin Medical Center's Net Assets (Continued)

**TABLE 1**  
**Condensed Balance Sheet**

	April 30,			
	2006	2005	2004	2003
Total current and other assets	\$ 4,377,779	\$ 5,325,676	\$ 6,061,446	\$ 5,805,674
Capital assets, net	4,127,827	4,601,851	4,799,083	4,281,282
Assets whose use is limited	725,013	1,007,069	1,030,324	1,016,601
<b>Total assets</b>	<b>\$ 9,230,619</b>	<b>\$ 10,934,596</b>	<b>\$ 11,890,853</b>	<b>\$ 11,103,557</b>
Total current liabilities	\$ 1,195,042	\$ 1,288,716	\$ 1,827,350	\$ 1,432,374
Long-term debt, net of current maturities	237,182	452,104	606,129	149,923
<b>Total liabilities</b>	<b>1,432,224</b>	<b>1,740,820</b>	<b>2,433,479</b>	<b>1,582,297</b>
Invested in capital assets, net of related debt	3,721,680	3,980,782	3,992,644	4,073,289
Restricted net assets	238,074	262,466	299,053	300,720
Unrestricted net assets	3,838,641	4,950,528	5,165,677	5,147,251
<b>Total liabilities and net assets</b>	<b>\$ 9,230,619</b>	<b>\$ 10,934,596</b>	<b>\$ 11,890,853</b>	<b>\$ 11,103,557</b>

**Required Financial Statements**

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past three years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

**Financial Analysis of the Hospital**

The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

**Summary of Revenue, Expenses and Changes in Net Assets**

**TABLE 2**  
**Condensed Statements of Revenue, Expenses and Changes in Net Assets**

	Years Ended April 30,			
	2006	2005	2004	2003
Net patient service revenue	\$ 13,929,569	\$ 13,983,603	\$ 13,349,272	\$ 12,466,336
Other revenue	248,920	256,318	326,215	189,625
<b>Total operating revenue</b>	<b>14,178,489</b>	<b>14,239,921</b>	<b>13,675,487</b>	<b>12,655,961</b>
Salaries and employee benefits	8,357,888	7,558,456	7,011,187	6,447,727
Pension plan	78,184	83,683	79,046	57,517
Supplies and other	1,484,161	1,420,187	1,303,343	1,427,681
Professional, mgt. and consulting fees	2,328,928	2,181,963	2,155,971	2,080,481
Other expense	2,414,446	2,352,271	2,454,974	2,326,679
Insurance	246,225	262,974	227,259	242,776
Depreciation and amortization	719,457	671,508	559,805	554,948
<b>Total operating expenses</b>	<b>15,629,289</b>	<b>14,531,042</b>	<b>13,791,585</b>	<b>13,137,809</b>
Operating income (loss)	(1,450,800)	(291,121)	(116,098)	(481,848)
Nonoperating income	55,419	27,523	52,212	32,236
Revenues in excess of expenses	(1,395,381)	(263,598)	(63,886)	(449,612)
Net assets - beginning of year	9,193,776	9,457,374	9,521,260	9,970,872
Net assets - end of year	<b>\$ 7,798,395</b>	<b>\$ 9,193,776</b>	<b>\$ 9,457,374</b>	<b>\$ 9,521,260</b>

Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

**Sources of Revenue**

**Operating Revenue**

During fiscal year 2006, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts.

Table 3 presents the relative percentages of gross charges billed for patient services for Medicare and Medicaid for the fiscal years ended April 30, 2006, 2005, 2004 and 2003.

**TABLE 3  
Medicare & Medicaid Patient Revenue**

	Year ended April 30,			
	2006	2005	2004	2003
Medicare and Medicaid patient charges	\$ 17,956,135	\$ 18,141,029	\$ 17,563,977	\$ 17,206,475
Contractual adjustments	6,955,237	6,874,810	6,472,778	6,525,599
Net Medicare and Medicaid revenue	<u>\$ 11,000,898</u>	<u>\$ 11,266,219</u>	<u>\$ 11,091,199</u>	<u>\$ 10,680,876</u>
Percent of total patient gross charges	<u>74.93%</u>	<u>79.79%</u>	<u>79.09%</u>	<u>77.37%</u>
Percent of total patient revenues	<u>78.98%</u>	<u>73.57%</u>	<u>74.09%</u>	<u>73.58%</u>

Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

Operating and Financial Performance

**TABLE 4**  
**Patient Statistics**

	Year ended April 30,			
	2006	2005	2004	2003
<b>Number of patient days</b>				
Medicare acute care	4,366	4,764	5,168	6,250
Psychiatric	839	1,101	1,619	1,074
Swingbed	396	44	255	275
Medicaid acute care	1,365	1,250	1,127	1,074
Other acute care	980	687	793	788
<b>Total</b>	<b>7,946</b>	<b>7,846</b>	<b>8,962</b>	<b>9,461</b>
<b>Number of patient discharges</b>				
Medicare acute care	1,050	1,172	1,226	1,271
Psychiatric	90	103	116	101
Swingbed	42	44	38	34
Medicaid acute care	440	437	388	333
Other acute care	346	279	290	278
<b>Total</b>	<b>1,968</b>	<b>2,035</b>	<b>2,058</b>	<b>2,017</b>
<b>Average length of patient stay</b>				
Medicare acute care	4.2	4.1	4.2	4.9
Psychiatric	9.3	10.7	14.0	10.6
Medicaid acute care	3.1	2.9	2.9	3.2
Other acute care	2.8	2.5	2.7	2.8
<b>Average length of stay for acute care</b>	<b>3.7</b>	<b>3.5</b>	<b>3.7</b>	<b>4.3</b>



Hospital Service District No. 1  
Of the Parish of Franklin, State of Louisiana  
Franklin Medical Center

Management's Discussion and Analysis

**Capital Assets**

**TABLE 5**  
**Capital Assets**

	April 30			
	2006	2005	2004	2003
Land and land improvements	\$ 177,500	\$ 177,500	\$ 177,500	\$ 177,500
Buildings	4,318,514	4,270,385	3,934,800	3,934,800
Fixed equipment	2,529,238	2,529,238	2,494,415	2,485,777
Major movable equipment	6,948,385	6,728,730	6,440,447	5,572,003
<b>Subtotal</b>	<b>13,973,637</b>	<b>13,705,853</b>	<b>13,047,162</b>	<b>12,170,080</b>
Less accumulated depreciation and amortization	9,845,810	9,148,188	8,485,363	7,937,137
Construction-in-progress	-0-	44,186	237,284	48,339
<b>Net property, plant and equipment</b>	<b>\$ 4,127,827</b>	<b>\$ 4,601,851</b>	<b>\$ 4,799,083</b>	<b>\$ 4,281,282</b>

**Long-Term Debt**

Long-term debt consists of capital leases. During FY 2006, the Hospital made payments of \$214,922. As a result, long-term debt decreased by \$214,922 or 34.6%.

**Contacting the Hospital's Financial Manager**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



## **LESTER, MILLER & WELLS**

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### Independent Auditors' Report

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

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of Franklin (the Hospital), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2006, 2005 and 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Franklin, as of April 30, 2006, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

Management's discussion and analysis on pages "i" through "vii" is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Lester, Miller & Wells*

Certified Public Accountants  
August 22, 2006



FRANKLIN MEDICAL CENTER  
BALANCE SHEETS  
APRIL 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents (Note 3)	\$ 422,611	\$ 290,882	\$ 1,223,398
Short-term investments	2,321,583	2,547,556	2,502,177
Accounts receivable, net of allowances for uncollectibles (Note 4)	1,335,928	1,800,457	1,509,142
Estimated third-party payor settlements	167,638	458,490	507,864
Inventories	174,079	171,181	211,204
Prepaid expenses	<u>99,018</u>	<u>57,110</u>	<u>98,978</u>
Total Current Assets	<u>4,520,857</u>	<u>5,325,676</u>	<u>6,052,763</u>
<b>Non-Current Assets</b>			
Property, plant and equipment, net (Note 5 and 6)	4,127,827	4,601,851	4,799,083
Organizational costs	109,168	-0-	8,683
Assets whose use is limited (Note 7)	<u>725,013</u>	<u>1,007,069</u>	<u>1,030,324</u>
Total Assets	<u>\$ 9,482,865</u>	<u>\$ 10,934,596</u>	<u>\$ 11,890,853</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 532,010	\$ 481,896	\$ 708,283
Accrued salary and payroll taxes	288,398	332,051	176,835
Accrued vacation payable (Note 8)	205,669	206,328	148,851
Estimated third-party payor settlements	252,246	99,476	593,071
Current portion of long-term debt (Note 9)	<u>168,965</u>	<u>168,965</u>	<u>200,310</u>
Total Current Liabilities	<u>1,447,288</u>	<u>1,288,716</u>	<u>1,827,350</u>
<b>Long-term Liabilities</b>			
Capital lease obligations (Note 9)	<u>237,182</u>	<u>452,104</u>	<u>606,129</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,721,680	3,980,782	3,992,644
Restricted	238,074	262,466	299,053
Unrestricted	<u>3,838,641</u>	<u>4,950,528</u>	<u>5,165,677</u>
Total Net Assets	<u>7,798,395</u>	<u>9,193,776</u>	<u>9,457,374</u>
Total Liabilities and Net Assets	<u>\$ 9,482,865</u>	<u>\$ 10,934,596</u>	<u>\$ 11,890,853</u>

See accompanying notes to financial statements.

**FRANKLIN MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED APRIL 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>			
Net patient service revenues (Note 10)	\$ 13,929,569	\$ 13,983,603	\$ 13,349,272
Grants	54,924	14,143	11,818
Non-restricted contributions	3,043	(2,517)	2,110
Other operating revenues	<u>190,953</u>	<u>244,692</u>	<u>312,287</u>
 Total Revenues	 <u>14,178,489</u>	 <u>14,239,921</u>	 <u>13,675,487</u>
<b>Expenses</b>			
Salaries	6,575,673	5,841,995	5,597,273
Benefits and payroll taxes	1,860,399	1,800,144	1,492,960
Supplies and drugs	1,484,161	1,420,187	1,303,343
Professional fees	2,328,928	2,181,963	2,155,971
Other expenses	2,414,446	2,352,271	2,454,974
Insurance	246,225	262,974	227,259
Depreciation and amortization	<u>719,457</u>	<u>671,508</u>	<u>559,805</u>
 Total Expenses	 <u>15,629,289</u>	 <u>14,531,042</u>	 <u>13,791,585</u>
 Operating Income (Loss)	 <u>(1,450,800)</u>	 <u>(291,121)</u>	 <u>(116,098)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	74,946	57,364	75,924
Interest expense	<u>(19,527)</u>	<u>(29,841)</u>	<u>(23,712)</u>
 <del>Excess of Revenues over Expenses</del>	 <del>(1,395,381)</del>	 <del>(263,598)</del>	 <del>(63,886)</del>
 Beginning Net Assets	 <u>9,193,776</u>	 <u>9,457,374</u>	 <u>9,521,260</u>
 Ending Net Assets	 \$ <u>7,798,395</u>	 \$ <u>9,193,776</u>	 \$ <u>9,457,374</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>			
Cash received from patients and third-party payors	\$ 14,837,720	\$ 13,248,067	\$ 13,734,846
Other receipts from operations	248,920	256,318	326,215
Cash payments to employees and for employee-related cost	(8,480,384)	(7,429,446)	(7,229,383)
Cash payments for other operating expenses	<u>(6,487,979)</u>	<u>(6,391,732)</u>	<u>(5,672,820)</u>
<b>Net cash provided (used) by operating activities</b>	<u>118,277</u>	<u>(316,793)</u>	<u>1,158,858</u>
<b>Cash flows from investing activities:</b>			
Cash invested in certificates of deposit	-0-	(22,124)	(1,048,590)
Cash proceeds from certificates of deposit	377,027	-0-	-0-
Interest income	<u>74,946</u>	<u>57,364</u>	<u>75,924</u>
<b>Net cash provided (used) by investing activities</b>	<u>451,973</u>	<u>35,240</u>	<u>(972,666)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of property, plant, and equipment	(223,599)	(440,834)	(375,266)
Principal payments on long-term debt	<u>(214,922)</u>	<u>(210,129)</u>	<u>(92,315)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(438,521)</u>	<u>(650,963)</u>	<u>(467,581)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	131,729	(932,516)	(281,389)
<b>Beginning cash and cash equivalents</b>	<u>290,882</u>	<u>1,223,398</u>	<u>1,504,787</u>
<b>Ending cash and cash equivalents</b>	<u>\$ 422,611</u>	<u>\$ 290,882</u>	<u>\$ 1,223,398</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER  
 STATEMENTS OF CASH FLOWS (Continued)  
 YEARS ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the period for interest	\$ <u>(19,527)</u>	\$ <u>(29,841)</u>	\$ <u>(23,712)</u>
Equipment acquired through capital lease agreements	\$ <u>-0-</u>	\$ <u>24,759</u>	\$ <u>690,761</u>
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (1,450,800)	\$ (291,121)	\$ (116,098)
<b>Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:</b>			
Depreciation and amortization	719,457	671,508	559,805
Provision for bad debts	2,026,140	1,330,590	1,621,630
Interest expense considered capital related	(19,527)	(29,841)	(23,712)
<b>Changes in current assets (increase) decrease</b>			
Accounts receivable	(1,561,611)	(1,621,905)	(1,984,494)
Estimated third-party payor settlements	290,852	49,374	660,553
Inventories	(2,898)	40,023	216,508
Prepaid expenses	(41,908)	41,868	(28,070)
<b>Changes in current liabilities increase (decrease)</b>			
Accounts payable and accrued expenses	50,114	(226,387)	304,001
Accrued salary and payroll taxes	(43,653)	155,216	(131,059)
Accrued vacation payable	(659)	57,477	(8,091)
Estimated third-party payor settlements	<u>152,770</u>	<u>(493,595)</u>	<u>87,885</u>
<b>Net cash provided (used) by operating activities</b>	<b>\$ <u>118,277</u></b>	<b>\$ <u>(316,793)</u></b>	<b>\$ <u>1,158,858</u></b>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2006, 2005 AND 2004

**NOTE 1 - ORGANIZATION AND OPERATIONS**

**Legal Organization**

Franklin Parish Hospital Service District No. 1 (the Hospital 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. The Hospital's commissioners are appointed by the Franklin Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Franklin Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Franklin Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

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 during April 1986, thereby eliminating the Police Jury bond indebtedness related to the District.

**Nature of Business**

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, inpatient acute hospital services, geriatric psychiatric services, and a rural health clinic.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Enterprise Fund**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Basis of Accounting**

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.



FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Franklin Parish residents and grants credit to patients, substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 10. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

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Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out, or market basis.

Income Taxes

The District's income is exempt from taxation.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2006, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 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.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance on any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use unrestricted resources first, then restricted resources as they are needed.

Revenue and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2006, 2005 AND 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Charity Care**

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at April 30, 2006, 2005 and 2004. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. At April 30, 2006 and 2005, the Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name. At April 30, 2004, the Hospital's deposits with the exception of \$58,455 were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

**NOTE 4 - ACCOUNTS RECEIVABLE**

A summary of accounts receivable is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patients	\$ 4,218,750	\$ 3,485,883	\$ 2,857,113
Other	<u>23,178</u>	<u>346,574</u>	<u>131,029</u>
Total	4,241,928	3,832,457	2,988,142
Estimated allowances for uncollectibles	<u>(2,906,000)</u>	<u>(2,032,000)</u>	<u>(1,479,000)</u>
Net accounts receivable	\$ <u>1,335,928</u>	\$ <u>1,800,457</u>	\$ <u>1,509,142</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 - ACCOUNTS RECEIVABLE (Continued)**

The following is a summary of the mix of receivables from patients and third-party payors at April 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	12%	10%	15%
Medicaid	18%	12%	11%
Commercial and other third-party payors	14%	19%	14%
Patients	<u>56%</u>	<u>59%</u>	<u>60%</u>
 Total	 <u>100%</u>	 <u>100%</u>	 <u>100%</u>

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

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

	April 30 <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2006</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	4,270,386	48,128	-0-	4,318,514
Leasehold improvements	2,529,238	-0-	-0-	2,529,238
Furniture and equipment	6,728,729	219,656	-0-	6,948,385
Construction in progress	<u>44,186</u>	<u>-0-</u>	<u>44,186</u>	<u>-0-</u>
 Total	 13,750,039	 267,784	 44,186	 13,973,637
Accumulated depreciation	<u>9,148,187</u>	<u>697,623</u>	<u>-0-</u>	<u>9,845,810</u>
 Net	 <u>\$ 4,601,852</u>	 <u>\$ (429,839)</u>	 <u>\$ 44,186</u>	 <u>\$ 4,127,827</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

	April 30, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2005</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	3,934,800	335,585	-0-	4,270,385
Leasehold improvements	2,494,415	34,823	-0-	2,529,238
Furniture and equipment	6,440,447	288,283	-0-	6,728,730
Construction in progress	<u>237,284</u>	<u>-0-</u>	<u>193,098</u>	<u>44,186</u>
<b>Total</b>	<b>13,284,446</b>	<b>658,691</b>	<b>193,098</b>	<b>13,750,039</b>
Accumulated depreciation	<u>8,485,363</u>	<u>662,825</u>	<u>-0-</u>	<u>9,148,188</u>
<b>Net</b>	<b>\$ <u>4,799,083</u></b>	<b>\$ <u>(4,134)</u></b>	<b>\$ <u>193,098</u></b>	<b>\$ <u>4,601,851</u></b>
	April 30, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2004</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	3,934,800	-0-	-0-	3,934,800
Leasehold improvements	2,485,777	8,638	-0-	2,494,415
Furniture and equipment	5,572,003	868,444	-0-	6,440,447
Construction in progress	<u>48,339</u>	<u>188,945</u>	<u>-0-</u>	<u>237,284</u>
<b>Total</b>	<b>12,218,419</b>	<b>1,066,027</b>	<b>-0-</b>	<b>13,284,446</b>
Accumulated depreciation	<u>7,937,137</u>	<u>548,226</u>	<u>-0-</u>	<u>8,485,363</u>
<b>Net</b>	<b>\$ <u>4,281,282</u></b>	<b>\$ <u>517,801</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>4,799,083</u></b>

**NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT**

As discussed in Note 1, the hospital facility and original equipment were acquired with the proceeds of ad valorem tax bonds issued by the Franklin Parish Police Jury.

Effective September 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 does not call for the District to pay consideration to the Police Jury.

FRANKLIN MEDICAL CENTER  
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**NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)**

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

<u>Cost or Fair Market Value on the Date of Donation</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,500	1,842,500	1,842,500
Furniture and Equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
 Total	 <u>2,058,716</u>	 <u>2,058,716</u>	 <u>2,058,716</u>
 <u>Accumulated Depreciation</u>			
Buildings	1,718,302	1,684,430	1,650,558
Furniture and Equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
 Total	 <u>1,907,018</u>	 <u>1,873,146</u>	 <u>1,839,274</u>
 Book value of property, plant and equipment	 \$ <u>151,698</u>	 \$ <u>185,570</u>	 \$ <u>219,442</u>

These assets were obtained in part with funds from a Hill-Burton 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.

**NOTE 7 - ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited include certificates of deposit set aside by the Board of Commissioners for the following purposes:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital improvements	\$ 54,071	\$ 286,187	\$ 281,352
LHA trust	238,074	262,466	299,053
Contingencies	131,265	128,051	125,480
Self-insured unemployment fund	<u>301,603</u>	<u>330,365</u>	<u>324,439</u>
 Total	 \$ <u>725,013</u>	 \$ <u>1,007,069</u>	 \$ <u>1,030,324</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
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**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 \$205,689, \$206,328 and \$148,851 of vacation pay at April 30, 2006, 2005 and 2004. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

**NOTE 9 - LONG-TERM DEBT**

A summary of long-term debt, including capital leases, at April 30, follows:

	April 30 <u>2005</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2006</u>	<u>Due Within One Year</u>
Lease Payable - GE	\$ 429,782	\$ -0-	\$ 114,470	\$ 315,312	\$ 118,624
Lease Payable - GE	86,770	-0-	68,680	18,090	18,090
Note Payable - Hibernia Bank	<u>104,517</u>	<u>-0-</u>	<u>31,772</u>	<u>72,745</u>	<u>32,251</u>
<b>Total</b>	<b>\$ <u>621,069</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>214,922</u></b>	<b>\$ <u>406,147</u></b>	<b>\$ <u>168,965</u></b>

	April 30, <u>2004</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2005</u>	<u>Due Within One Year</u>
Lease Payable - GE	\$ 540,243	\$ -0-	\$ 110,461	\$ 429,782	\$ 118,624
Lease Payable - GE	149,923	-0-	63,153	86,770	18,090
Lease Payable - Hibernia	<u>116,273</u>	<u>24,759</u>	<u>36,515</u>	<u>104,517</u>	<u>32,251</u>
<b>Total</b>	<b>\$ <u>806,439</u></b>	<b>\$ <u>24,759</u></b>	<b>\$ <u>210,129</u></b>	<b>\$ <u>621,069</u></b>	<b>\$ <u>168,965</u></b>

	April 30, <u>2003</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2004</u>	<u>Due Within One Year</u>
Lease Payable - GE	\$ -0-	\$ 574,488	\$ 34,245	\$ 540,243	\$ 110,461
Lease Payable - GE	207,993	-0-	58,070	149,923	63,153
Lease Payable - Hibernia	<u>-0-</u>	<u>116,273</u>	<u>-0-</u>	<u>116,273</u>	<u>26,696</u>
<b>Total</b>	<b>\$ <u>207,993</u></b>	<b>\$ <u>690,761</u></b>	<b>\$ <u>92,315</u></b>	<b>\$ <u>806,439</u></b>	<b>\$ <u>200,310</u></b>

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**NOTE 9 - LONG-TERM DEBT (Continued)**

The following are the terms and due dates of the Hospital's long-term debt at April 30:

- Lease Payable with GE Healthcare Financial Services, at an interest rate of 8.4%, due in monthly installments with full repayment at July 31, 2006, secured by equipment with a cost of \$294,577 and book value of \$4,910 at April 30, 2006.
- Lease Payable with GE Healthcare Financial Services, at an interest rate of 3.57%, due in monthly installments with full repayment at November 30, 2008, secured by equipment with a cost of \$574,488 and book value of \$306,393 at April 30, 2006.
- Lease Payable with Hibernia Leasing, at an interest rate of 1.5%, due in monthly installments with full repayment at June 19, 2008, secured by equipment with a cost of \$114,164 and book value of \$92,009 at April 30, 2006.

<u>Year Ending April 30</u>	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 168,965	\$ 10,452
2008	155,668	5,405
2009	<u>81,514</u>	<u>1,405</u>
Totals	\$ <u>406,147</u>	\$ <u>17,262</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of assets under capital leases is included in depreciation expense.

**NOTE 10 - NET PATIENT SERVICE REVENUES**

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

**Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2009, if not extended by Congress. The additional payments received under the hold harmless provision was \$145,536, \$203,640, and \$177,721 for the years ended April 30, 2006, 2005, and 2004, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day. Geriatric inpatient psychiatry is reimbursed based upon a cost reimbursement methodology subject to a limit amount per discharge. Effective October 1, 2005, this method of reimbursement begins a four (4) year transition to a prospective method based upon length of stay, diagnosis, and other factors. In year one (1) the District is paid seventy-five percent (75%) based on the old cost based system and twenty-five percent (25%) based on the new prospective system. In year two



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**NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)**

(2) the blend is fifty/fifty. In year three (3), twenty-five percent (25%) cost and seventy-five percent (75%) prospective. In year four (4) payments are scheduled to be fully prospective.

**Medicaid** - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through April 30, 2003.

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

The following is a summary of the Hospital's net patient revenues for the years ended April 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service revenues	\$ 23,965,292	\$ 22,735,992	\$ 22,206,339
Contractual adjustments	(9,348,722)	(8,818,880)	(8,500,912)
Provision for bad debts	(2,026,140)	(1,330,590)	(1,621,630)
Discounts	(19,870)	(3,034)	(7,857)
Uncompensated care reimbursement	<u>1,359,009</u>	<u>1,400,115</u>	<u>1,273,332</u>
 Net patient service revenues	 \$ <u>13,929,569</u>	 \$ <u>13,983,603</u>	 \$ <u>13,349,272</u>

~~The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended April 30:~~

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid patient charges	\$ 17,956,135	\$ 18,141,029	\$ 17,563,977
Contractual adjustments	<u>(6,955,237)</u>	<u>(6,874,810)</u>	<u>(6,472,778)</u>
 Program patient service revenue	 \$ <u>11,000,898</u>	 \$ <u>11,266,219</u>	 \$ <u>11,091,199</u>
 Percent of total gross patient charges	 <u>75%</u>	 <u>80%</u>	 <u>79%</u>
 Percent of total net patient revenues	 <u>79%</u>	 <u>81%</u>	 <u>83%</u>

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**NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)**

The Hospital received interim amounts of \$1,359,009, \$1,400,115, and \$1,273,332 for Medicaid and self-pay uncompensated care services for the years ended April 30, 2006, 2005, and 2004, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Current regulations do not provide for settlement of underpayments by Medicaid. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

**NOTE 11 - PROFESSIONAL LIABILITY RISK**

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

**NOTE 12 - 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:

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**Governmental Third-Party Reimbursement Programs (Note 10) -** The Hospital 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.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and

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**NOTE 12 - CONTINGENCIES (Continued)**

regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Hospital's insurance carrier.

The Hospital also participates in the Franklin Medical Center Employee Benefit Plan and Trust. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$30,000 or aggregate claims exceeding \$1,000,000 per year.

**NOTE 13 - PENSION PLAN**

The District has a defined contribution pension plan. The plan is administered by The Pension Company who holds all plan assets. All of the employees over the age of 21 are eligible to participate in the plan. Employees can elect to contribute up to 22% of their annual salaries and the District matches the first 3% of the employees' contributions. Actual contributions made by the District for the years ended April 30, 2006, 2005 and 2004 were \$78,184, \$83,683, and \$79,046.

**NOTE 14 - COMMISSIONERS**

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2006:

Madge Wilson  
Woodrow Bell  
Rebecca Singleton  
John Earl Carroll  
Nick Poulas

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YEARS ENDED APRIL 30, 2006, 2005 AND 2004

**NOTE 15 - OPERATING LEASES**

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of April 30, 2006, that have initial or remaining lease terms in excess of one year.

<u>Year Ending April 30</u>	<u>Amount</u>
2007	\$ 16,446
2008	-0-
2009	<u>-0-</u>
Total minimum lease payments	\$ <u>16,446</u>

**SUPPLEMENTARY INFORMATION**

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**FRANKLIN MEDICAL CENTER  
SCHEDULES OF NET PATIENT SERVICE REVENUES  
YEARS ENDED APRIL 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Routine Services:</b>			
Adults and pediatric	\$ 2,206,475	\$ 2,218,530	\$ 2,339,005
Intensive care unit	313,750	327,500	390,000
Swing bed	59,800	63,200	49,400
Psychiatric	<u>1,143,230</u>	<u>1,275,210</u>	<u>1,862,420</u>
<b>Total</b>	<u>3,723,255</u>	<u>3,884,440</u>	<u>4,640,825</u>
<b>Other Professional Services:</b>			
<b>Operating room</b>			
Inpatient	307,086	304,552	272,386
Outpatient	<u>322,610</u>	<u>321,840</u>	<u>319,407</u>
<b>Total</b>	<u>629,696</u>	<u>626,392</u>	<u>591,793</u>
<b>Recovery room</b>			
Inpatient	77,175	72,900	70,875
Outpatient	<u>115,350</u>	<u>115,875</u>	<u>119,700</u>
<b>Total</b>	<u>192,525</u>	<u>188,775</u>	<u>190,575</u>
<b>Anesthesia</b>			
Inpatient	223,270	224,225	205,635
Outpatient	<u>253,688</u>	<u>255,464</u>	<u>250,925</u>
<b>Total</b>	<u>476,958</u>	<u>479,689</u>	<u>456,560</u>
<b>Radiology</b>			
Inpatient	954,167	808,124	824,112
Outpatient	<u>2,234,561</u>	<u>2,028,829</u>	<u>1,942,620</u>
<b>Total</b>	<u>3,188,728</u>	<u>2,836,953</u>	<u>2,766,732</u>
<b>Laboratory</b>			
Inpatient	779,296	808,035	813,279
Outpatient	<u>974,747</u>	<u>721,837</u>	<u>654,016</u>
<b>Total</b>	<u>\$ 1,754,043</u>	<u>\$ 1,529,872</u>	<u>\$ 1,467,295</u>

FRANKLIN MEDICAL CENTER  
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)  
YEARS ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Blood			
Inpatient	\$ 71,473	\$ 74,020	\$ 73,694
Outpatient	<u>17,840</u>	<u>14,385</u>	<u>17,244</u>
Total	<u>89,313</u>	<u>88,405</u>	<u>90,938</u>
Respiratory care			
Inpatient	2,224,371	2,692,999	2,400,028
Outpatient	<u>101,703</u>	<u>92,426</u>	<u>84,244</u>
Total	<u>2,326,074</u>	<u>2,785,425</u>	<u>2,484,272</u>
Physical therapy			
Inpatient	27,758	24,868	61,453
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>5,123</u>
Total	<u>27,758</u>	<u>24,868</u>	<u>66,576</u>
EKG			
Inpatient	179,741	252,772	239,714
Outpatient	<u>151,202</u>	<u>215,252</u>	<u>217,563</u>
Total	<u>330,943</u>	<u>468,024</u>	<u>457,277</u>
Central supply			
Inpatient	438,332	294,306	320,608
Outpatient	<u>209,751</u>	<u>192,075</u>	<u>233,391</u>
Total	<u>648,083</u>	<u>486,381</u>	<u>553,999</u>
Pharmacy			
Inpatient	3,328,046	3,895,855	3,302,156
Outpatient	<u>582,548</u>	<u>717,555</u>	<u>762,481</u>
Total	\$ <u>3,910,594</u>	\$ <u>4,613,410</u>	\$ <u>4,064,637</u>

**FRANKLIN MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)**  
**YEARS ENDED APRIL 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Intensive outpatient program	\$ <u>384,480</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Emergency room			
Inpatient	678,368	702,030	707,913
Outpatient	<u>2,940,289</u>	<u>2,786,608</u>	<u>2,866,002</u>
Total	<u>3,618,657</u>	<u>3,488,638</u>	<u>3,573,915</u>
Observation room			
Inpatient	3,975	10,200	9,225
Outpatient	<u>37,675</u>	<u>32,650</u>	<u>43,875</u>
Total	<u>41,650</u>	<u>42,850</u>	<u>53,100</u>
Rural health clinic - outpatient	<u>2,422,717</u>	<u>1,023,000</u>	<u>712,139</u>
Ambulance			
Inpatient	1,700	4,075	4,731
Outpatient	<u>26,289</u>	<u>33,825</u>	<u>30,950</u>
Total	<u>27,989</u>	<u>37,900</u>	<u>35,681</u>
Home health	<u>-0-</u>	<u>-0-</u>	<u>25</u>
Private physician office	<u>171,829</u>	<u>130,970</u>	<u>-0-</u>
<hr/>			
Total Other Professional Services	<u>20,242,037</u>	<u>18,851,552</u>	<u>17,565,514</u>
Gross Patient Service Charges	<u>23,965,292</u>	<u>22,735,992</u>	<u>22,206,339</u>
Allowances and Uncollectibles:			
Contractual adjustments	9,348,722	8,818,880	8,500,912
Provision for bad debts	2,026,140	1,330,590	1,621,630
Charity care and policy discounts	19,870	3,034	7,857
Uncompensated care reimbursement	<u>(1,359,009)</u>	<u>(1,400,115)</u>	<u>(1,273,332)</u>
Total Allowances and Uncollectibles	<u>10,035,723</u>	<u>8,752,389</u>	<u>8,857,067</u>
Net Patient Service Revenue	\$ <u>13,929,569</u>	\$ <u>13,983,603</u>	\$ <u>13,349,272</u>



FRANKLIN MEDICAL CENTER  
 SCHEDULES OF OTHER OPERATING REVENUES  
 YEARS ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cafeteria sales	\$ 49,672	\$ 66,524	\$ 70,782
Vending machine commission	3,911	3,623	3,677
Physician office rentals	106,705	146,430	171,067
Medical records abstract fees	9,130	13,818	10,917
LHA investment income	10,491	-0-	28,823
Miscellaneous revenue	<u>11,044</u>	<u>14,297</u>	<u>27,021</u>
<b>Total other operating revenue</b>	<b>\$ <u>190,953</u></b>	<b>\$ <u>244,692</u></b>	<b>\$ <u>312,287</u></b>

**FRANKLIN MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS**  
**YEARS ENDED APRIL 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Personnel	\$ 55,287	\$ 53,128	\$ 48,540
Administration	936,056	1,016,599	912,436
Plant operations and maintenance	213,738	230,300	209,824
Housekeeping	189,716	173,921	168,971
Dietary and cafeteria	170,698	206,236	198,294
Nursing administration	102,066	82,216	131,941
Central supply	-0-	-0-	1,559
Pharmacy	(197)	-0-	160,507
Medical records	214,475	170,290	169,358
Nursing services, acute care	1,213,755	1,388,402	1,379,989
Nursing services, intensive care unit	299,709	377,460	376,153
Nursing services, psychiatric unit	457,862	383,676	348,533
Operating room	220,485	210,566	199,562
Anesthesiology	-0-	-0-	10,958
Radiology	294,092	287,496	277,625
Respiratory care	231,695	240,802	271,021
Intensive outpatient program	96,518	-0-	-0-
Emergency room	464,242	361,375	390,253
Rural health clinic	1,181,028	392,675	311,857
Transportation	41,421	14,548	14,388
Private physician office	<u>193,027</u>	<u>252,305</u>	<u>15,504</u>
Total salaries	<u>6,575,673</u>	<u>5,841,995</u>	<u>5,597,273</u>
Payroll taxes	446,517	419,486	426,671
Health insurance	1,274,452	1,235,479	911,948
Pension plan	76,184	83,683	79,046
Other	<u>61,246</u>	<u>61,496</u>	<u>75,295</u>
Total benefits	<u>1,860,399</u>	<u>1,800,144</u>	<u>1,492,960</u>
Total salaries and benefits	\$ <u>8,436,072</u>	\$ <u>7,642,139</u>	\$ <u>7,090,233</u>

FRANKLIN MEDICAL CENTER  
 SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES  
 YEARS ENDED APRIL 30,

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Nursing service	\$ -0-	\$	-0-	\$	5,901
Psychiatric unit	62,139		36,566		33,786
Operating room	(931)		17,329		23,785
Anesthesiology	270,377		235,614		232,506
Radiology	146,700		86,357		78,885
Laboratory	777,767		678,700		669,202
Respiratory therapy	5,691		10,127		5,234
Physical therapy	12,737		12,662		27,120
EKG	16,882		119,921		115,799
IOP	87		-0-		-0-
Emergency room	956,247		910,497		891,515
Rural health clinic	<u>81,232</u>		<u>74,190</u>		<u>72,238</u>
 Total professional fees	 \$ <u>2,328,928</u>	\$	 <u>2,181,963</u>	\$	 <u>2,155,971</u>

**FRANKLIN MEDICAL CENTER  
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES  
YEARS ENDED APRIL 30,**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Management fees	\$ 312,397	\$ 505,819	\$ 630,171
Miscellaneous service fees	570,784	360,252	186,248
Legal and accounting	119,184	62,601	74,421
Supplies	284,120	394,019	531,041
Minor equipment	84,466	27,013	24,408
Repairs and maintenance	154,873	158,323	165,275
Utilities	328,549	266,669	256,007
Telephone	66,962	52,078	46,669
Travel	32,201	34,901	30,127
Rentals	290,870	237,886	312,302
Education	1,371	8,336	13,797
Dues and subscriptions	75,206	95,986	92,169
Recruitment and advertising	3,225	205	30,332
Miscellaneous	<u>90,238</u>	<u>148,183</u>	<u>62,007</u>
 Total other expenses	 \$ <u>2,414,446</u>	 \$ <u>2,352,271</u>	 \$ <u>2,454,974</u>



## **LESTER, MILLER & WELLS**

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

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

We have audited the 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, 2006, 2005 and 2004, and have issued our report thereon dated August 22, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Franklin Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of management comments.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that only number 1, 2 and 3 of the 2006 reportable conditions are material weaknesses.

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

Compliance

As part of obtaining reasonable assurance about whether Franklin Medical Center's 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.

This report is intended for the information of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lester, Miller & Wells*

Certified Public Accountant  
August 22, 2006



FRANKLIN MEDICAL CENTER  
AUDITORS' SCHEDULE OF FINDINGS  
YEAR ENDED APRIL 30, 2006

2005 Findings and Recommendations

Compliance

1. UNCLAIMED PROPERTY

Finding: The District did not report unclaimed vendor checks to the State of Louisiana as unclaimed property.

Recommendation: We recommend reporting unclaimed property as required to the State of Louisiana.

Response: Any unclaimed property will be reported as required by the State of Louisiana. Additionally, the District will monitor outstanding checks on a monthly basis.

Resolution: This matter has not been resolved.

2006 Finding and Recommendations

Internal Controls

1. MONTHLY FINANCIAL STATEMENTS

Finding: Monthly interim financial statements were not provided to the Board on a regular basis. The Board needs accurate and timely financial statements in order to make informed financial decisions.

Recommendation: We recommend that management prepare monthly interim financial statements in a timely manner and present at the Board meetings.

Response: Management is in the process of hiring a new chief financial officer to be responsible for the preparation of monthly financial statements. Currently management has contracted with an outside company to assist in the preparation of the financial statements.

2. MONTHLY JOURNAL ENTRIES

Finding: Various accounts, such as allowances for accounts receivable, depreciation expense and prepaids, were not adjusted on a monthly basis. Without these entries, the financial statements are incomplete and inaccurate.

Recommendation: During the monthly close, balance sheet accounts should be reconciled and adjusted before issuing financial statements to the Board.

Response: We will reconcile and record monthly journal entries in order to have an accurate set of financial statements for the Board to help aid in their decision making.



FRANKLIN MEDICAL CENTER  
AUDITORS' SCHEDULE OF FINDINGS  
YEAR ENDED APRIL 30, 2006

2006 Finding and Recommendations (continued)

Internal Controls (continued)

3. ALLOWANCES FOR ACCOUNTS RECEIVABLE

Finding: Allowances for accounts receivable were understated by approximately \$900,000. Management did not record an entry for the final month of the year as well as used a different methodology of estimating allowances than incorporated in the previous years.

Recommendation: Allowances for accounts receivable should be estimated in a consistent manner. Additionally, management should compare its estimate to historical data to insure an adequate allowance is recorded.

Response: We will calculate an estimate for allowances on accounts receivable using current historical data applied to an aging of accounts receivable. The estimate will be recorded monthly.

4. CHARGE MASTER

Finding: It was brought to our attention during the audit that the Hospital charged out some items at cost. Additionally, the Hospital has not completed a charge master in the past few years.

Recommendation: We recommend the Hospital hire an outside consultant to complete a charge master review. Charge master reviews should be done more frequently due to changes in Medicare and Medicaid regulations.

Response: We will have a charge master review after hiring a new chief financial officer.

5. RECORDING OF DEPOSITS

Finding: A cash receipt of approximately \$68,000 was received before year, but the posting of the transaction did not occur until after year end. As a result cash was understated by \$68,000 and accounts receivable was overstated by approximately \$129,000.

Recommendation: We recommend posting of remittance advices to the month in which they were received.

Response: We will record deposits in the correct time period.





FRANKLIN MEDICAL CENTER  
AUDITORS' SCHEDULE OF FINDINGS  
YEAR ENDED APRIL 30, 2006

Compliance

1. INVESTMENTS RESTRICTED BY THE BOARD

Finding: Two certificates of deposit, which were restricted as to use by the Board, were used without the approval of the Board.

Recommendation: We recommend that a schedule of restricted investments be presented to the Board on a monthly basis. Additionally, restricted investments should not be used without Board approval.

Response: Management will seek Board approval before closing out any accounts that were previously restricted by the Board.

2. PHYSICIAN AGREEMENTS

Finding: While the Board approved for management to enter into negotiations on a physician contract, management did not obtain final approval from the Board. Additionally, management did not obtain a fair value opinion on physician contracts.

Recommendation: We recommend that management obtain Board approval on future contracts. We also suggest a fair value opinion be obtained on all physician agreements.

Response: Management will obtain the fair value opinions as recommended.

3. EMPLOYEE CONTRACT

Finding: Upon resigning, an employee was paid sick leave as approved by the Board chairman. The contract was vague in determining whether or not the sick leave was vested.

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Recommendation: We suggest that contracts with employees be revised to state that sick leave is not vested.

Response: We will implement the recommendation.

