

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF FRANKLIN, STATE OF LOUISIANA
d/b/a FRANKLIN MEDICAL CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
APRIL 30, 2004, 2003 AND 2002

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 11-10-04

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, 2004, 2003 AND 2002

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Franklin Parish Hospital Service District No. 1
(dba Franklin Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
For Fiscal Years ended April 30, 2004 and 2003

Our discussion and analysis of Franklin Medical Center's financial performance provides an overview of the financial activities for the fiscal years that ended on April 30, 2004 and 2003. Please read it in conjunction with Franklin Medical Center's basic financial statements.

Financial Highlights

- Total assets for FY 2004 had an overall increase of \$787,296 or 7.09% over the amount reported for total assets at the end of FY 2003
- Current assets for FY 2004 had an overall increase of \$267,351, or 4.62% for the same period.
- Within the increase in current assets, there was an increase in Cash & Equivalents and Short-term investments of \$753,478, or 25.4% compared to the same period last year. Restricted investments increased \$13,723 for the same period.
- Total hospital revenue showed an increase of \$591,519, or 4.02%, compared to the same period last year.
- Making up the increase in total hospital revenue is an increase in net patient revenue for FY 2004 of \$454,929, or 3.13%
- The other part of the increase in total hospital revenue is an increase in all other operating revenue, grants, and contributions, of \$136,590, or 72.03%. The reader is referred to the schedules attached titled Schedules of Other Operating Revenue for a breakdown of the total amount
- Net assets for FY 2003, (the difference between assets and liabilities) decreased \$63,886, or .67% less than the same amount for FY 2004. This is the amount of the excess of expenses over revenues for FY 2004 of the same amount compared to an excess of expenses over revenue for FY 2003 of \$449,612. The loss for FY 2004 of \$63,886 is an improvement over the same period for FY 2003 of \$385,725, or 85.79%.
- Accounts Payable for FY 2004 of \$708,283 as compared to \$404,282 for FY 2003 is an increase of \$304,001. The following produced this difference: Franklin Medical Center entered into a contract with a third-party pharmacy management company during FY 2004. The payables for amounts due this company for fees due plus settlement of inventory agreements were not recorded until April 30, 2004. The effect of this payable on the increase is \$186,512. The other part of the increase occurred when Franklin Medical Center was required to pay \$88,542 for diagnostic equipment pending settlement of a lease transaction for the same amount. The balance of accounts payable after consideration of the foregoing items for FY 2004 is \$433,198 compared to FY 2003 which is \$404,282.

Franklin Parish Hospital Service District No. 1
(dba Franklin Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
For Fiscal Years ended April 30, 2004 and 2003

Using this Annual Report

Franklin Medical Center's basic 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 Franklin Medical Center's activities including resources held by Franklin Medical Center, but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

This 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. Franklin Medical Center's net assets (inclusive of donated assets) decreased by \$63,886, or .67% and is discussed under the highlights section. 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 discussed in the following table:

Franklin Parish Hospital Service District No. 1
(dba Franklin Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
For Fiscal Years ended April 30, 2004 and 2003

Summary of Assets and Liabilities

	2004	2003	Increase (Decrease)	% Increase (Decrease)
Assets				
Current and other assets	\$ 7,091,770	\$ 6,822,275	\$ 269,495	3.95%
Capital assets, net	4,799,083	4,281,282	517,801	12.09%
Total assets	<u>\$ 11,890,853</u>	<u>\$ 11,103,557</u>	<u>\$ 787,296</u>	<u>7.09%</u>
Liabilities				
Long-term debt outstanding	\$ 606,129	\$ 149,923	\$ 456,206	304.29%
Other liabilities	1,827,350	1,432,374	394,976	27.57%
Total liabilities	<u>2,433,479</u>	<u>1,582,297</u>	<u>851,182</u>	<u>53.79%</u>
Net assets				
Invested in capital assets, net of related debt	3,992,644	4,073,289	(80,645)	-1.98%
Restricted	299,053	300,720	(1,667)	-0.55%
Unrestricted	5,165,677	5,147,251	18,426	0.36%
Total net assets	<u>9,457,374</u>	<u>9,521,260</u>	<u>(63,886)</u>	<u>-0.6710%</u>
Total liabilities and net assets	<u>\$ 11,890,853</u>	<u>\$ 11,103,557</u>	<u>\$ 787,296</u>	<u>7.09%</u>

Overall, total assets increased 7.09% for the FY 2004 over FY 2003

- Current and other assets increased 3.95% for the FY 2004 over FY 2003.
- Capital assets, net of depreciation, increased 12.09% for the FY 2004 over FY 2003 primarily due to acquiring major diagnostic equipment through capital leases.
- The increase in liabilities is discussed under highlights as it pertains to accounts payable and increase in long-term debt for FY 2004 over FY 2003 is related to the acquisition of capital assets referred to above for major diagnostic equipment.
- For the decrease in net assets see the discussion in highlights and following discussion of revenues and expenses.

Franklin Parish Hospital Service District No 1
(dba Franklin Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
For Fiscal Years ended April 30, 2004 and 2003

Summary of Revenues, Expenses, and Changes in Net Assets

	FY 2004	FY 2003	Increase (Decrease)	% Increase (Decrease)
Revenue				
Net patient service revenue	\$ 14,970,902	\$ 14,515,973	\$ 454,929	3.13%
Gain (loss) on disposal of assets	-	(69,800)	69,800	-100.00%
Maintenance taxes	-	-		
Grants	11,818	-	11,818	100.00%
Non-restricted contributions	2,110	-	2,110	100.00%
Other revenue	312,287	259,425	52,862	20.38%
Total revenue	<u>15,297,117</u>	<u>14,705,598</u>	<u>591,519</u>	<u>4.02%</u>
Expenses				
Salaries	5,597,273	5,274,869	322,404	6.11%
Benefits and payroll taxes	1,413,914	1,172,858	241,056	20.55%
Pension plan (Note 14)	79,046	57,517	21,529	37.43%
Supplies and drugs	1,303,343	1,427,681	(124,338)	-8.71%
Professional fees	2,155,971	2,080,481	75,490	3.63%
Other expenses	2,454,974	2,326,679	128,295	5.51%
Insurance	227,259	242,776	(15,517)	-6.39%
Interest expense	23,712	19,980	3,732	18.68%
Impairment loss	-	-		
Depreciation and amortization	559,805	554,948	4,857	0.88%
Provision for bad debts	1,621,630	2,049,637	(428,007)	-20.88%
Total expenses	<u>15,436,927</u>	<u>15,207,426</u>	<u>229,501</u>	<u>1.51%</u>
Operating income (loss)	(139,810)	(501,828)	362,018	-72.14%
Non-operating gains (losses)				
Interest income	75,924	52,216	23,708	45.40%
Excess of Revenue over Expenses	(63,886)	(449,612)	385,726	-85.79%
Beginning Net Assets	9,521,260	9,970,872	(449,612)	-4.51%
Ending Net Assets	<u>\$ 9,457,374</u>	<u>\$ 9,521,260</u>	<u>\$ (63,886)</u>	<u>-0.67%</u>

Sources of Revenue

During fiscal year 2004, the Hospital derived 98% 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 Franklin Medical Center's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual

Franklin Parish Hospital Service District No 1
 (dba Franklin Medical Center)
 Management's Discussion and Analysis of the Basic Financial Statements
 For Fiscal Years ended April 30, 2004 and 2003

Sources of Revenue (Continued)

allowance. Other revenue includes interest income, cafeteria sales, medical records fees, office rental fees, and other miscellaneous fees.

Overall operating revenues increased \$591,519 for FY 2004 over FY 2003 and is a 4.02% increase. Net patient revenue increased \$454,929 for FY 2004 over FY 2003 and is a 3.13% increase. Other revenue listed above increased \$52,862 for FY 2004 over FY 2003 and is a 20.4% increase.

Non-operating Revenue

Franklin Medical Center earned \$75,924 in interest income during FY 2004 as compared to \$52,216 in FY 2003, an increase of \$23,708, or 45.4%. The increase in interest income was due to the overall increase in cash and cash equivalents and short-term investments from FY 2004 to FY 2003.

Expenses

Overall, operating expenses for FY 2004 to FY 2003 increased \$229,501, or 1.51%. Within this increase, salaries increased \$322,404 or 6.1%, while other employee benefits increased a total of \$262,585 or 21.3%. Note that within the other employee benefits, the total cost of employee health insurance increased from \$707,522 in FY 2003 to \$911,948 in FY 2004. This is an increase of \$204,426 or 29%. Professional fees and other expenses increased a total of \$223,785 over FY 2003, or 4.62%. Insurance expense decreased 6.39% from FY 2003 while supplies and drugs decreased \$124,338 from FY 2004 over FY 2003. Depreciation and amortization expense remained relatively unchanged with an increase over FY 2003 of .88%. Bad debts expense decreased \$428,007 from FY 2003, or 21%.

Operating and Financial Performance

The table below depicts Medicare and Medicaid patient revenue for the fiscal years ended 2004 and 2003.

	FY 2004	FY 2003
Medicare and Medicaid patient charges	\$ 17,563,977	\$ 17,206,475
Contractual adjustments	<u>6,472,778</u>	<u>6,525,599</u>
Net Medicare and Medicaid revenue	<u>\$ 11,091,199</u>	<u>\$ 10,680,876</u>
Percent of total patient gross charges	<u>79.09%</u>	<u>77.37%</u>
Percent of total patient revenues	<u>74.09%</u>	<u>73.58%</u>

Franklin Parish Hospital Service District No. 1
(dba Franklin Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
For Fiscal Years ended April 30, 2004 and 2003

Operating and Financial Performance (Continued)

The following table is a comparison of Franklin Medical Center's Medicare, Medicaid, and other admissions and lengths of stay for FY 2004 and FY 2003:

	FY 2004	FY 2003	Increase (Decrease)	Increase (Decrease)
Number of patient days				
Medicare acute care	5,168	6,250	(1,082)	-17.3%
Psychiatric	1,619	1,074	545	50.7%
Swingbed	255	275	(20)	-7.3%
Medicaid acute care	1,127	1,074	53	4.9%
Other acute care	793	788	5	0.6%
Total	8,962.0	9,461.0	(499.0)	-5.3%
Number of patient discharges				
Medicare acute care	1,226	1,271	(45)	-3.5%
Psychiatric	116	101	15	14.9%
Swingbed	38	34	4	11.8%
Medicaid acute care	388	333	55	16.5%
Other acute care	290	278	12	4.3%
Total	2,058.0	2,017.0	41.0	2.0%
Average length of patient stay				
Medicare acute care	4.2	4.9	(0.7)	-14.3%
Psychiatric	14.0	10.6	3.4	32.1%
Medicaid acute care	2.9	3.2	(0.3)	-9.4%
Other acute care	2.7	2.8	(0.1)	-3.6%
Average length of stay for acute care	3.7	4.3	(0.6)	-14.0%

During FY 2004, patient days care from all sources decreased by 469, or 5% from FY 2003 while patient discharges from all sources increased by 42, or 2.1% for the same period. Note that the average length of stay for Medicare acute care inpatients decreased by 14.3% for FY 2004 as compared to FY 2003. This is a positive sign of improved care as it relates to the prospective payment system as reimbursement generally relates to discharges. The opposite is true for Medicaid statistics since reimbursement is based on a per diem rate.

Franklin Parish Hospital Service District No. 1
 (dba Franklin Medical Center)
 Management's Discussion and Analysis of the Basic Financial Statements
 For Fiscal Years ended April 30, 2004 and 2003

Operating and Financial Performance (Continued)

The table below summarizes Accounts Receivable for the fiscal years ended 2004 and 2003:

	FY 2004	FY 2003
Patient accounts receivable	\$ 2,857,113	\$ 2,799,330
Other receivables	131,029	53,948
Allowance for uncollectibles	<u>(1,479,000)</u>	<u>(1,707,000)</u>
Net accounts receivable	<u>\$ 1,509,142</u>	<u>\$ 1,146,278</u>

Patient accounts receivable increased \$57,783 from FY 2003 to FY 2004 or 2.06%, while other receivables increased \$53,948. See the discussion under expenses regarding a significant decrease in bad debts expense for FY 2004.

The 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 any questions about this report or need additional financial information, contact hospital administration.

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Independent Auditors' Report

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

We have audited the accompanying basic 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, 2004, 2003 and 2002, as listed in the foregoing table of contents. These basic 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.

In our opinion, the basic 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, 2004, 2003 and 2002, 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 September 10, 2004, 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 grants. 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin, State of Louisiana
Winnsboro, Louisiana
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As discussed in Note 2 to the financial statements, effective May 1, 2003, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board.

Management's discussion and analysis on pages "i" through "vii" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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

September 10, 2004

FRANKLIN MEDICAL CENTER
BALANCE SHEETS
APRIL 30, 2004, 2003 AND 2002

ASSETS	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current Assets			
Cash and cash equivalents (Note 3)	\$ 1,223,398	\$ 1,504,787	\$ 1,170,658
Short-term investments	2,502,177	1,467,310	887,401
Accounts receivable, net of allowances for uncollectibles (Note 4)	1,509,142	1,146,278	1,876,830
Estimated third-party payor settlements	507,864	1,168,417	1,189,668
Inventories	211,204	427,712	350,367
Prepaid expenses	98,978	70,908	70,988
Total Current Assets	<u>6,052,763</u>	<u>5,785,412</u>	<u>5,545,912</u>
Non-Current Assets			
Property, plant and equipment, net (Note 5 and 6)	4,799,083	4,281,282	4,793,586
Organizational costs	8,683	20,262	31,841
Assets whose use is limited (Note 7)	1,030,324	1,016,601	940,225
Total Assets	<u>\$ 11,890,853</u>	<u>\$ 11,103,557</u>	<u>\$ 11,311,564</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 708,283	\$ 404,282	\$ 455,393
Accrued salary and payroll taxes	176,835	307,894	234,236
Accrued vacation payable (Note 8)	148,851	156,942	159,275
Estimated third-party payor settlements	593,071	505,186	230,399
Current portion of long-term debt (Note 9)	200,310	58,070	53,396
Total Current Liabilities	<u>1,827,350</u>	<u>1,432,374</u>	<u>1,132,699</u>
Long-term Liabilities			
Capital lease obligations (Note 9)	<u>606,129</u>	<u>149,923</u>	<u>207,993</u>
Net Assets			
Invested in capital assets, net of related debt	3,992,644	4,073,289	4,532,197
Restricted	299,053	300,720	290,564
Unrestricted	5,165,677	5,147,251	5,148,111
Total Net Assets	<u>9,457,374</u>	<u>9,521,260</u>	<u>9,970,872</u>
Total Liabilities and Net Assets	<u>\$ 11,890,853</u>	<u>\$ 11,103,557</u>	<u>\$ 11,311,564</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue			
Net patient service revenue (Note 10)	\$ 14,970,902	\$ 14,515,973	\$ 14,220,822
Gain (loss) on disposal of assets	-0-	(69,800)	625
Grants	11,818	-0-	-0-
Non-restricted contributions	2,110	-0-	84
Other revenue	<u>312,287</u>	<u>259,425</u>	<u>234,461</u>
 Total Revenue	 <u>15,297,117</u>	 <u>14,705,598</u>	 <u>14,455,992</u>
Expenses			
Salaries	5,597,273	5,274,869	5,273,821
Benefits and payroll taxes	1,413,914	1,172,858	1,199,036
Pension plan (Note 13)	79,046	57,517	65,574
Supplies and drugs	1,303,343	1,427,681	1,414,519
Professional fees	2,155,971	2,080,481	2,041,040
Other expenses	2,454,974	2,326,679	2,452,976
Insurance	227,259	242,776	204,680
Interest expense	23,712	19,980	15,730
Depreciation and amortization	559,805	554,948	562,586
Provision for bad debts	<u>1,621,630</u>	<u>2,049,637</u>	<u>1,775,703</u>
 Total Expenses	 <u>15,436,927</u>	 <u>15,207,426</u>	 <u>15,005,665</u>
 Operating Income (Loss)	 <u>(139,810)</u>	 <u>(501,828)</u>	 <u>(549,673)</u>
Non-Operating Gains (Losses)			
Interest income	<u>75,924</u>	<u>52,216</u>	<u>76,035</u>
 Excess of Revenue over Expenses	 <u>(63,886)</u>	 <u>(449,612)</u>	 <u>(473,638)</u>
 Beginning Net Assets	 <u>9,521,260</u>	 <u>9,970,872</u>	 <u>10,444,510</u>
 Ending Net Assets	 <u>\$ 9,457,374</u>	 <u>\$ 9,521,260</u>	 <u>\$ 9,970,872</u>

See accompanying notes to financial statements.

**FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 12,986,408	\$ 13,196,888	\$ 12,831,107
Other receipts from operations	1,074,653	555,463	520,939
Cash payments to employees and for employee-related cost	(7,229,383)	(6,283,490)	(6,141,156)
Cash payments for other operating expenses	<u>(5,672,820)</u>	<u>(6,376,402)</u>	<u>(6,390,723)</u>
 Net cash provided (used) by operating activities	 <u>1,158,858</u>	 <u>1,092,459</u>	 <u>820,167</u>
Cash flows from investing activities:			
Cash invested in certificates of deposit	(1,048,590)	(656,285)	(566,185)
Interest earned	<u>75,924</u>	<u>52,216</u>	<u>76,035</u>
 Net cash provided (used) by investing activities	 <u>(972,666)</u>	 <u>(604,069)</u>	 <u>(490,150)</u>
Cash flows from capital and related financing activities:			
Acquisition of property, plant, and equipment	(375,266)	(301,065)	(227,825)
Proceeds from sale of building and equipment	-0-	200,200	625
Principal payments on long-term debt	<u>(92,315)</u>	<u>(53,396)</u>	<u>(33,188)</u>
 Net cash provided (used) by capital and related financing activities	 <u>(467,581)</u>	 <u>(154,261)</u>	 <u>(260,388)</u>
 Net increase (decrease) in cash	 (281,389)	 334,129	 69,629
Beginning cash and cash equivalents	<u>1,504,787</u>	<u>1,170,658</u>	<u>1,101,029</u>
Ending cash and cash equivalents	\$ <u>1,223,398</u>	\$ <u>1,504,787</u>	\$ <u>1,170,658</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
 STATEMENTS OF CASH FLOWS (Continued)
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>23,712</u>	\$ <u>19,980</u>	\$ <u>15,730</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (139,810)	\$ (501,828)	\$ (549,673)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	559,805	554,948	562,586
Provision for bad debts	1,621,630	2,049,637	1,775,703
(Gain) or loss on disposal of assets	-0-	69,800	(625)
Changes in current assets (increase) decrease			
Accounts receivable	(1,984,494)	(1,319,085)	(1,389,715)
Estimated third-party payor settlements	660,553	21,251	55,995
Inventories	216,508	(77,345)	(3,732)
Prepaid expenses	(28,070)	80	9,036
Changes in current liabilities increase (decrease)			
Accounts payable and accrued expenses	304,001	(51,111)	48,059
Accrued salary and payroll taxes	(131,059)	73,658	44,659
Accrued vacation payable	(8,091)	(2,333)	37,475
Estimated third-party payor settlements	<u>87,885</u>	<u>274,787</u>	<u>230,399</u>
Net cash provided (used) by operating activities	\$ <u>1,158,858</u>	\$ <u>1,092,459</u>	\$ <u>820,167</u>

The Hospital entered into a capital lease obligation of \$690,761 and \$294,577 for equipment in 2004 and 2002, respectively.

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

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 the accrual method of accounting. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. Hospital accounting and reporting procedures also 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, and standards set by the Governmental Accounting Standards Board (GASB), which is

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

On May 1, 2003, the Hospital adopted the provisions of Statement No. 34 (Statement 34) of GASB, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the Hospital restated the 2003 and 2002 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements.

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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Third-Party Payor Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient acute services and on a fixed price per patient day for Medicaid inpatient acute and psychiatric services. Medicare and Medicaid outpatients and home health services are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. Medicare inpatient psychiatric services are reimbursed based upon the reasonable cost of services to patients (subject to certain limits). These reimbursements are subject to audit and retroactive adjustments by each payor.

Inventory

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

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.

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are included in income or loss from operations; all peripheral transactions are reported as a component of nonoperating income.

Income Taxes

The District's income is exempt from taxation.

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements 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.

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, 2004, 2003 and 2002. 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. Balances at April 30 were as follows:

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2004				
Investment type:				
Direct obligations of or				
securities backed by the full				
faith and credit of the U.S.				
Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents,				
certificates of deposit	4,398,391	-0-	58,455	4,456,846
 Totals	\$ 4,398,391	\$ -0-	\$ 58,455	\$ 4,456,846

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2003				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	<u>3,687,978</u>	<u>-0-</u>	<u>-0-</u>	<u>3,687,978</u>
Totals	<u>\$ 3,687,978</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,687,978</u>

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2002				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	<u>2,707,720</u>	<u>-0-</u>	<u>-0-</u>	<u>2,707,720</u>
Totals	<u>\$ 2,707,720</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,707,720</u>

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	2004	2003	2002
Patients	\$ 2,857,113	\$ 2,799,330	\$ 3,335,794
Other	<u>131,029</u>	<u>53,948</u>	<u>22,036</u>
Total	2,988,142	2,853,278	3,357,830
Estimated allowances for uncollectibles	<u>(1,479,000)</u>	<u>(1,707,000)</u>	<u>(1,481,000)</u>
Net accounts receivable	<u>\$ 1,509,142</u>	<u>\$ 1,146,278</u>	<u>\$ 1,876,830</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

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>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>
Total	12,218,419	1,066,027	-0-	13,284,446
Accumulated depreciation	<u>7,937,137</u>	<u>548,226</u>	<u>-0-</u>	<u>8,485,363</u>
Net	\$ <u>4,281,282</u>	\$ <u>517,801</u>	\$ <u>-0-</u>	\$ <u>4,799,083</u>

	April 30, <u>2002</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2003</u>
Land	\$ 289,500	\$ -0-	\$ 112,000	\$ 177,500
Buildings	4,092,800	-0-	158,000	3,934,800
Leasehold improvements	2,434,698	51,079	-0-	2,485,777
Furniture and equipment	5,355,156	216,847	-0-	5,572,003
Construction in progress	<u>12,651</u>	<u>48,339</u>	<u>12,651</u>	<u>48,339</u>
Total	12,184,805	316,265	282,651	12,218,419
Accumulated depreciation	<u>7,391,219</u>	<u>545,918</u>	<u>-0-</u>	<u>7,937,137</u>
Net	\$ <u>4,793,586</u>	\$ <u>(229,653)</u>	\$ <u>282,651</u>	\$ <u>4,281,282</u>

	April 30, <u>2001</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2002</u>
Land	\$ 289,500	\$ -0-	\$ -0-	\$ 289,500
Buildings	4,092,800	-0-	-0-	4,092,800
Leasehold improvements	2,369,025	65,673	-0-	2,434,698
Furniture and equipment	4,911,078	444,078	-0-	5,355,156
Construction in progress	<u>-0-</u>	<u>12,651</u>	<u>-0-</u>	<u>12,651</u>
Total	11,662,403	522,402	-0-	12,184,805
Accumulated depreciation	<u>6,840,212</u>	<u>551,007</u>	<u>-0-</u>	<u>7,391,219</u>
Net	\$ <u>4,822,191</u>	\$ <u>(28,605)</u>	\$ <u>-0-</u>	\$ <u>4,793,586</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

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.

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

Cost or Fair Market Value on the <u>Date of Donation</u>	<u>2004</u>	<u>2003</u>	<u>2002</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	1,650,558	1,616,686	1,469,814
Furniture and Equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>1,839,274</u>	<u>1,805,402</u>	<u>1,658,530</u>
Book value of property, plant and equipment	\$ <u>219,442</u>	\$ <u>253,314</u>	\$ <u>400,186</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.

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

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>2004</u>	<u>2003</u>	<u>2002</u>
Capital improvements	\$ 281,352	\$ 309,498	\$ 251,337
LHA trust	299,053	300,720	290,564
Contingencies	125,480	122,418	120,019
Self-insured unemployment fund	<u>324,439</u>	<u>283,965</u>	<u>278,305</u>
 Total	 \$ <u>1,030,324</u>	 \$ <u>1,016,601</u>	 \$ <u>940,225</u>

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 \$148,851, \$156,942 and \$159,275 of vacation pay at April 30, 2004, 2003 and 2002. 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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 9 - LONG-TERM DEBT

Following is a summary of long-term debt at April 30.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital lease obligation with GE Healthcare Financial Services, interest rate at 8.4 percent secured by equipment with a cost of \$294,577 and book value of \$122,740 at April 30, 2004	\$ 149,923	\$ 207,993	\$ 261,389
Capital lease obligation with GE Healthcare Financial Services, interest rate at 3.57 percent secured by equipment with a cost of \$574,488 and book value of \$536,189 at April 30, 2004	540,243	-0-	-0-
Capital lease obligation with Hibernia National Bank, interest rate at 1.5 percent secured by equipment with a cost of \$116,273 and book value of \$136,319 at April 30, 2004	<u>116,273</u>	<u>-0-</u>	<u>-0-</u>
Total long-term debt	806,439	207,993	261,389
Less current maturities of long-term debt	<u>200,310</u>	<u>58,070</u>	<u>53,396</u>
Long-term debt	\$ <u>606,129</u>	\$ <u>149,923</u>	\$ <u>207,993</u>

Minimum future lease payments under capital leases of April 30, 2004, and for each subsequent year in aggregate are provided below:

<u>Year Ended April 30</u>	<u>Amount</u>
2005	\$ 229,585
2006	229,585
2007	174,553
2008	156,209
2009	<u>81,703</u>
Total minimum lease payments	871,635
Less: Amounts representing interest	<u>65,196</u>
Net minimum lease payments	\$ <u>806,439</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

FRANKLIN MEDICAL CENTER
 NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 10 - NET PATIENT SERVICE REVENUE

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 cost reimbursement for the next three years following August 1, 2000. 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). On October 1, 2000, home health is paid a set rate based on diagnosis for each 60 day period.

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, 2000.

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 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>2004</u>	<u>2003</u>	<u>2002</u>
Medicare patients	\$ 13,468,981	\$ 13,578,931	\$ 12,652,184
Medicaid patients	<u>4,094,996</u>	<u>3,627,544</u>	<u>2,776,717</u>
Total	\$ <u>17,563,977</u>	\$ <u>17,206,475</u>	\$ <u>15,428,901</u>
Percent of all patients	<u>79%</u>	<u>77%</u>	<u>75%</u>

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

The Hospital received interim amounts of \$1,273,332, \$1,139,968, and \$1,101,564 for Medicaid and self-pay uncompensated care services for the years ended April 30, 2004, 2003, and 2002, 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. 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.

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:

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.

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

NOTE 12 - CONTINGENCIES (Continued)

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 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, 2004, 2003 and 2002 were \$79,046, \$57,517, and \$65,574

NOTE 14 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2004:

Tom Kerrigan
Madge Wilson
Woodrow Bell
Rebecca Singleton
Joe M. Gravelle
John Earl Carroll

FRANKLIN MEDICAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

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, 2004, that have initial or remaining lease terms in excess of one year.

<u>Year Ending April 30</u>	<u>Amount</u>
2005	\$ 127,967
2006	46,973
2007	<u>16,446</u>
Total minimum lease payments	\$ <u>191,386</u>

NOTE 16 - SUBSEQUENT EVENTS

On May 6, 2004, the District approved a construction bid of \$414,507 for roof repairs.

SUPPLEMENTARY INFORMATION

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Daily patient services:			
Routine services	\$ 2,339,005	\$ 2,664,630	\$ 2,230,020
Intensive care	390,000	340,625	357,575
Psychiatric	1,862,420	1,232,880	1,156,045
Swing bed	<u>49,400</u>	<u>55,000</u>	<u>53,300</u>
Total daily patient services	<u>4,640,825</u>	<u>4,293,135</u>	<u>3,796,940</u>
Other professional services:			
Operating room			
Inpatient	272,386	280,734	210,825
Outpatient	<u>319,407</u>	<u>554,926</u>	<u>445,679</u>
Total operating room	<u>591,793</u>	<u>835,660</u>	<u>656,504</u>
Recovery room			
Inpatient	70,875	77,325	31,400
Outpatient	<u>119,700</u>	<u>156,500</u>	<u>58,400</u>
Total recovery room	<u>190,575</u>	<u>233,825</u>	<u>89,800</u>
Anesthesia			
Inpatient	205,635	237,326	264,869
Outpatient	<u>250,925</u>	<u>300,724</u>	<u>302,384</u>
Total anesthesia	<u>456,560</u>	<u>538,050</u>	<u>567,253</u>
Radiology			
Inpatient	824,112	814,140	802,284
Outpatient	<u>1,942,620</u>	<u>1,860,047</u>	<u>1,559,342</u>
Total radiology	<u>2,766,732</u>	<u>2,674,187</u>	<u>2,361,626</u>
Laboratory			
Inpatient	813,279	785,628	837,145
Outpatient	<u>654,016</u>	<u>532,345</u>	<u>476,754</u>
Total laboratory	<u>\$ 1,467,295</u>	<u>\$ 1,317,973</u>	<u>\$ 1,313,899</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Other professional services (Continued)			
Blood			
Inpatient	\$ 73,694	\$ 58,894	\$ 70,211
Outpatient	<u>17,244</u>	<u>15,210</u>	<u>42,212</u>
Total blood	<u>90,938</u>	<u>74,104</u>	<u>112,423</u>
Respiratory care			
Inpatient	2,400,028	2,828,956	2,380,925
Outpatient	<u>84,244</u>	<u>74,031</u>	<u>382,196</u>
Total respiratory care	<u>2,484,272</u>	<u>2,902,987</u>	<u>2,763,121</u>
Physical therapy			
Inpatient	61,453	39,534	37,323
Outpatient	<u>5,123</u>	<u>967</u>	<u>709</u>
Total physical therapy	<u>66,576</u>	<u>40,501</u>	<u>38,032</u>
EKG			
Inpatient	239,714	250,588	231,214
Outpatient	<u>217,563</u>	<u>237,299</u>	<u>172,083</u>
Total EKG	<u>457,277</u>	<u>487,887</u>	<u>403,297</u>
Central supply			
Inpatient	320,608	294,767	589,131
Outpatient	<u>233,391</u>	<u>269,723</u>	<u>263,492</u>
Total central supply	<u>553,999</u>	<u>564,490</u>	<u>852,623</u>
Pharmacy			
Inpatient	3,302,156	3,495,980	3,411,022
Outpatient	<u>762,481</u>	<u>647,630</u>	<u>594,160</u>
Total pharmacy	<u>4,064,637</u>	<u>4,143,610</u>	<u>4,005,182</u>
Oncology - outpatient	<u>-0-</u>	<u>-0-</u>	<u>100</u>
Cardiac rehab - outpatient	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>33,815</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Other professional services (Continued)			
Emergency room			
Inpatient	\$ 707,913	\$ 607,105	\$ 479,202
Outpatient	<u>2,866,002</u>	<u>2,851,558</u>	<u>2,156,203</u>
Total emergency room	<u>3,573,915</u>	<u>3,458,663</u>	<u>2,635,405</u>
Observation room			
Inpatient	9,225	11,125	4,235
Outpatient	<u>43,875</u>	<u>53,250</u>	<u>34,270</u>
Total observation room	<u>53,100</u>	<u>64,375</u>	<u>38,505</u>
Rural health clinic - outpatient	<u>658,098</u>	<u>253,877</u>	<u>188,265</u>
Ambulance			
Inpatient	4,731	3,120	2,090
Outpatient	<u>30,950</u>	<u>34,336</u>	<u>36,090</u>
Total ambulance	<u>35,681</u>	<u>37,456</u>	<u>38,180</u>
Home health	<u>25</u>	<u>16,014</u>	<u>280,922</u>
Transportation	<u>-0-</u>	<u>36</u>	<u>1,416</u>
Private physician office	<u>54,041</u>	<u>302,444</u>	<u>300,918</u>
Total other professional services	<u>17,565,514</u>	<u>17,946,139</u>	<u>16,681,286</u>
Total patient service revenue	<u>22,206,339</u>	<u>22,239,274</u>	<u>20,478,226</u>
Deductions from revenue:			
Contractual allowances	8,500,912	8,840,055	7,306,831
Uncompensated cost reimbursement	(1,273,332)	(1,139,968)	(1,101,564)
Policy discounts and charity care	<u>7,857</u>	<u>23,214</u>	<u>52,137</u>
Total deductions from revenue	<u>7,235,437</u>	<u>7,723,301</u>	<u>6,257,404</u>
Net patient service revenue	\$ <u>14,970,902</u>	\$ <u>14,515,973</u>	\$ <u>14,220,822</u>

FRANKLIN MEDICAL CENTER
 SCHEDULES OF OTHER OPERATING REVENUE
 YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cafeteria sales	\$ 70,782	\$ 50,004	\$ 37,262
Vending machine commission	3,677	4,383	5,111
Physician office rentals	171,067	170,113	159,344
Medical records abstract fees	10,917	10,283	12,290
LHA investment income	28,823	10,156	27,905
Miscellaneous revenue	<u>27,021</u>	<u>14,486</u>	<u>(7,451)</u>
<i>Total other operating revenue</i>	<u>\$ 312,287</u>	<u>\$ 259,425</u>	<u>\$ 234,461</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED APRIL 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Personnel	\$ 48,540	\$ 49,310	\$ 32,345
Administration	912,436	845,851	782,058
Plant operations and maintenance	209,824	183,372	179,558
Housekeeping	168,971	171,674	138,557
Dietary and cafeteria	198,294	176,776	186,100
Nursing administration	131,941	154,200	173,671
Central supply	1,559	18,773	15,098
Pharmacy	160,507	188,150	156,850
Medical records	169,358	91,919	94,132
Nursing services, acute care	1,379,989	1,401,415	1,574,637
Nursing services, intensive care unit	376,153	368,963	324,651
Nursing services, psychiatric unit	348,533	274,810	257,353
Operating room	199,562	223,167	184,064
Anesthesiology	10,958	4,774	4,813
Radiology	277,625	275,810	338,499
Respiratory care	271,021	227,046	114,171
Cardiac rehab	-0-	-0-	36,649
Emergency room	390,253	276,953	193,988
Rural health clinic	311,857	205,780	154,678
Home health	-0-	9,091	174,487
Transportation	14,388	13,322	12,869
Private physician office	<u>15,504</u>	<u>113,713</u>	<u>144,593</u>
 Total salaries	 <u>5,597,273</u>	 <u>5,274,869</u>	 <u>5,273,821</u>
 Payroll taxes	 426,671	 388,243	 385,356
Health insurance	911,948	707,522	722,947
Other	<u>75,295</u>	<u>77,093</u>	<u>90,733</u>
 Total benefits	 <u>1,413,914</u>	 <u>1,172,858</u>	 <u>1,199,036</u>
 Total salaries and benefits	 \$ <u>7,011,187</u>	 \$ <u>6,447,727</u>	 \$ <u>6,472,857</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED APRIL 30, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Nursing service	\$ 5,901	\$ 7,673	\$ 665
Psychiatric unit	33,786	28,045	23,224
Operating room	23,785	72,737	118,797
Anesthesiology	232,506	217,998	179,160
Radiology	78,885	27,632	2,247
Laboratory	669,202	644,468	622,499
Respiratory therapy	5,234	-0-	-0-
Physical therapy	27,120	19,090	24,768
EKG	115,799	126,932	109,015
Oncology	-0-	-0-	1,800
Emergency room	891,515	846,176	856,788
Rural health clinic	72,238	85,698	83,625
Home health	-0-	4,032	18,452
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Total professional fees	\$ <u>2,155,971</u>	\$ <u>2,080,481</u>	\$ <u>2,041,040</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED APRIL 30, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Management fees	\$ 630,171	\$ 428,912	\$ 462,082
Miscellaneous service fees	186,248	196,820	190,626
Legal and accounting	74,421	47,108	40,753
Supplies	531,041	479,129	511,907
Minor equipment	24,408	21,716	60,375
Repairs and maintenance	165,275	172,126	83,363
Utilities	256,007	205,301	183,140
Telephone	46,669	51,706	52,467
Travel	30,127	16,352	30,678
Rentals	312,302	352,406	277,944
Education	13,797	22,320	33,795
Dues and subscriptions	92,169	91,309	91,115
Recruitment and advertising	30,332	191,597	218,064
Miscellaneous	<u>62,007</u>	<u>49,877</u>	<u>216,667</u>
 Total other expenses	 \$ <u>2,454,974</u>	 \$ <u>2,326,679</u>	 \$ <u>2,452,976</u>

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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, LA

We have audited the basic 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, 2004, 2003 and 2002, and have issued our report thereon dated September 10, 2004. 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.

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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

September 10, 2004

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2004

2000 Findings and Recommendations (From Previous Auditors' Report)

1. ACCOUNTS RECEIVABLE

Finding: It was noted that the District's accounts receivable significantly increase as a result in delays completing patient medical records and billing. Also, a significant increase in outpatient accounts over 180 days old for patients with insurance were noted. This resulted in a significant decrease in cash flow

Recommendation: The monthly financial report provided to the Board should include an aging of accounts receivable by financial class as well as the number, total bill and aging of accounts where the medical record is not complete.

Response: The recommended addition to the monthly financial report will be made.

Resolution: This matter has been resolved.

2. REHABILITATION DEPARTMENT

Finding: It was noted that the rehabilitation department's cost exceeded the maximum amount that Medicare would provide reimbursement. This resulted in the Hospital incurring a loss of \$40,568. An analysis of the department's profitability has been provided separately. Further, new prospective reimbursement statutes for this service have been enacted but have not been implemented.

Recommendation: Continued monitoring of the department's cost as compared to the maximum reimbursement limits is recommended

Response: The department's costs are being routinely monitored.

Resolution: This matter has not been resolved

3. COMPARISON OF EXPENSES

Finding: An analysis of the District's operating expenses as compared to similar hospitals was performed. It indicated that the District's cost was higher than its peers in the following areas: employee benefits; plant operations and maintenance (likely due to shopping center activities); housekeeping; oncology; rural health clinic; and the home health department.

Recommendation: Further analysis of these expenses to identify areas where expense reductions could be implemented is recommended.

Response: Additional analysis of these expenses is being performed.

Resolution: This matter has been partially resolved. Changes were made to reduce cost in some of the areas noted above, but other areas were left unchanged.

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2004

2003 Findings and Recommendations

Internal Controls

1. CASH

Finding: The District did not include all activity or bank account balance of a checking account on the books of the District.

Recommendation: We recommend recording all assets owned by the District on the books of the District and its financial statements

Response: All assets owned by the District will be recorded on the books of the District and its financial statements.

Resolution: This matter has not been resolved.

2. CASH

Finding: An employee of the District who has check signing authority also records transactions and reconciles the same bank account

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related asset; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operational responsibility from record-keeping.

Response: Management will segregate duties.

Resolution: This matter has not been resolved.

3. ACCOUNTS RECEIVABLE

Finding: The District was billed for physician support services determined on an allocation from a physician's clinic practice in accordance to contractual terms. While the District did receive a monthly detailed statement from the physician's practice, the District did not request to investigate the books of the physician's practice to determine if the billing was properly supported

Recommendation: We recommend requesting additional information to support the billing for physician support services. This will aide in determining if the District's payments were made in accordance to the contract.

Response: The contract ended in May 2003. For future contractual arrangements, the District will require additional information before payment is rendered.

Resolution: This matter has been resolved.

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2004

2003 Findings and Recommendations

Compliance

1. BILLING

Finding: Hospital physician charges were billed by a third party based on a contractual agreement. The District did not review documentation to determine if billing is in compliance with Medicare and Medicaid regulations

Recommendation: We recommend including a review of the physician's billings and charts as part of the District corporate compliance program.

Response: The contractual arrangement ended in May 2003. The District will include physician's billings and charts as part of their corporate compliance program in similar contractual arrangements.

Resolution: This matter has been resolved

2. HOME HEALTH

Finding: The District continued to receive remittances for home health services performed by a joint venture which took over the operations in June of 2002. By receipt of Medicare payments, the District could become responsible for billing of services which it does not control.

Recommendation: We recommend efforts to transfer receipts of billings to the joint venture

Response: The transfer of ownership was completed in May 2003 and receipts are paid directly to the joint venture

Resolution: This matter has been resolved

2004 Findings and Recommendations

Compliance

1. DEPOSITS AND INVESTMENTS

Finding: The District's deposits with one financial institution exceeded the Federal Depository Insurance limits and the securities pledged in the name of the District.

Recommendation: We recommend obtaining additional pledge securities in the name of the District and to monitor deposits on a monthly basis.

Response: Additional securities have been obtained and deposits will be monitored on a monthly basis

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2004

2004 Findings and Recommendations

Compliance (Continued)

2. 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.

3. RETENTION OF RECORDS CLAUSE

Finding: Service contracts "with a value or cost of \$10,000 or more over a twelve month period" are required to have a clause pertaining to the retention of records. This is required by the Social Security Act of 1861 (v) (1) (l)

Recommendation: We suggest reviewing all service contracts and request an addendum to the contract to add the retention of records clause, if required.

Response: Management will review the contracts and request addendums to those that lack the required clause.

4. CONTRACT SERVICES

Finding: During our review of expenses, we noted that no written agreement existed for a contracted management service.

Recommendation: The District should require written agreements for all service contracts exceeding \$10,000

Response: The District will acquire a written agreement for the management service contract.

5. CAPITAL LEASES

Finding: We noted that a capital lease did not contain a nonappropriation clause or was not approved by the Louisiana State Bond Commission

Recommendation: We recommend obtaining nonappropriation clauses for all capital leases.

Response: The District will request an addendum to add the nonappropriation clause