

FRANKLIN MEDICAL CENTER  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
APRIL 30, 2017, 2016 AND 2015



**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, 2017, 2016 AND 2015

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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, 2017, 2016, and 2015. Please read it in conjunction with the financial statements beginning on page 4 and notes to the financial statements beginning on page 8 in this report.

**Financial Highlights**

Current assets decreased by \$561,966 or 10.0% for the year ending April 30, 2017 due to a decrease in accounts receivables, net of allowances for uncollectibles due to an increase in contractual allowances for Medicare, Medicaid and Commercial insurances. Total Assets increased for current construction projects in progress at year end and listed in net capital assets.

Current liabilities increased 61.1% to \$5,571,703, attributable to the Medicaid estimated third-party payor settlement and accounts payable due to the new Cerner system. Long-term debt increased by \$2,083,911 or 66.0% in FY 2017 to \$5,243,598 for draws taken against revenue bonds for the construction projects in progress.

The net position decreased by \$2,679,267, 29.95%, which is the excess of expenses over revenues for the year ending April 30, 2017. Net position as of April 30, 2017 was \$6,267,864, down from \$8,947,131 as of April 30, 2016.

Net patient revenue for FY 2017 increased by \$1,290,601 or 5.57%, from \$23,174,726 in FY 2016 due to an increase of inpatient services. Overall patient days increased by 406 days to 2,450 for the year ending April 30, 2017. While outpatient service revenues did increase in the current year, total contractual allowance adjustments decreased and charity care/policy discounts increased.

Expenses for the year ending April 30, 2017 increased by \$2,706,663 or 9.98%. Total expenses for the year ending April 30, 2017 were \$29,829,138, up from \$27,122,475 as of April 30, 2016. The increase was related to the Cerner license fees and additional Rural Health Clinic staff.

**Using this Annual Report**

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

**The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

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

Net position is the difference between assets and liabilities. Over time, increases or decreases in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base, measure of the quality of services provided, and local, state, and federal economic factors to assess the overall health of Franklin Medical Center.

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

Management's Discussion and Analysis (continued)

**Using this Annual Report (Continued)**

**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 Position**

The Medical Center's net position is the difference between assets and liabilities reported in the balance sheet. As discussed under the financial highlights section, the Medical Center's net position (inclusive of donated assets) decreased by \$2,679,267. The financial highlights section also discusses the changes in assets and liabilities as are shown in the following table.

**TABLE 1**  
**Condensed Statements of Net Position**

	Years Ended			
	April 30,			
	2017	2016	2015	2014
Total current assets	\$ 5,032,691	\$ 5,594,657	\$ 7,199,318	\$ 7,093,085
Land and depreciable capital assets, net	9,769,889	7,843,664	4,720,729	5,058,621
Limited use assets	812,635	810,194	808,368	200,490
Other non-current assets	1,467,950	1,317,032	542,644	627,686
<b>Total assets</b>	<b>\$ 17,083,165</b>	<b>\$ 15,565,547</b>	<b>\$ 13,271,059</b>	<b>\$ 12,979,882</b>
Total current liabilities	\$ 5,571,703	\$ 3,458,729	\$ 3,072,729	\$ 2,783,706
Long-term debt, net of current maturities	5,243,598	3,159,687	673,677	1,013,680
<b>Total liabilities</b>	<b>10,815,301</b>	<b>6,618,416</b>	<b>3,746,406</b>	<b>3,797,386</b>
Net position				
Invested in capital assets, net of related debt	3,525,227	3,781,877	2,926,136	2,959,643
Restricted	200,490	200,490	200,490	200,490
Unrestricted	2,542,147	4,964,764	6,398,027	6,022,363
<b>Total liabilities and net position</b>	<b>\$ 17,083,165</b>	<b>\$ 15,565,547</b>	<b>\$ 13,271,059</b>	<b>\$ 12,979,882</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 Statement of Net Position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the

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

Management's Discussion and Analysis (continued)

**Required Financial Statements (Continued)**

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 Revenues, Expenses and Changes in Net Position. 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.

**Financial Analysis of the Hospital**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in them. Increases or decreases in the Hospital's net position 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.

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

Management's Discussion and Analysis (continued)

**Summary of Revenues, Expenses and Changes in Net Position**

**TABLE 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Years Ended April 30,			
	2017	2016	2015	2014
Net patient service revenue	\$24,465,327	\$23,174,726	\$23,745,410	\$20,442,578
Other revenue	2,863,853	3,207,560	3,278,285	4,215,424
<b>Total operating revenue</b>	<b>27,329,180</b>	<b>26,382,286</b>	<b>27,023,695</b>	<b>24,658,002</b>
Salaries and employee benefits	16,141,651	14,909,751	14,277,194	13,539,685
Supplies and other	1,847,920	1,760,425	1,827,522	1,472,939
Professional, mgt. and consulting fees	4,983,027	5,115,397	4,707,783	4,307,316
Other expense	5,306,657	3,832,365	4,140,923	2,961,595
Insurance	419,876	405,751	425,665	413,983
Depreciation and amortization	1,130,007	1,098,786	1,258,914	1,125,796
<b>Total operating expenses</b>	<b>29,829,138</b>	<b>27,122,475</b>	<b>26,638,001</b>	<b>23,821,314</b>
Operating income (loss)	(2,499,958)	(740,189)	385,694	836,688
Nonoperating income	(179,309)	162,667	(43,687)	(4,284)
Revenues in excess of expenses	(2,679,267)	(577,522)	342,007	832,404
Capital grants	-0-	-0-	-0-	41,400
Changes in net position	(2,679,267)	(577,522)	342,007	873,804
Net position - beginning of year	8,946,981	9,524,503	9,182,496	8,308,692
Net position - end of year	<b>\$ 6,267,714</b>	<b>\$ 8,946,981</b>	<b>\$ 9,524,503</b>	<b>\$ 9,182,496</b>

**Sources of Revenue**

**Operating Revenue**

During fiscal year 2017, 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.

A 13 mill property tax is approved for a period of twenty-five years, beginning with the year 2014 and ending with the year 2039, to be dedicated and used for operating, maintaining, renovating, and improving emergency medical services.

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

Management's Discussion and Analysis (continued)

Table 3 presents the relative percentages of gross charges billed for patient services for Medicare and Medicaid for the fiscal years ended April 30, 2017, 2016, 2015 and 2014.

**TABLE 3**  
**Medicare & Medicaid Patient Revenue**

	Years ended April 30,			
	2017	2016	2015	2014
Medicare and Medicaid patient charges	\$52,597,312	\$46,867,763	\$42,100,110	\$32,836,396
Contractual adjustments	31,012,726	32,189,491	24,904,968	20,586,423
<b>Net Medicare and Medicaid revenue</b>	<b>\$21,584,586</b>	<b>\$14,678,272</b>	<b>\$17,195,142</b>	<b>\$12,249,973</b>
Percent of total patient gross charges	73%	63%	64%	62%
Percent of total net patient revenues	88%	63%	72%	60%

**Operating and Financial Performance**

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

	Years ended April 30,			
	2017	2016	2015	2014
<b>Number of patient days</b>				
Medicare acute care	1,244	1,092	1,396	1,450
Swingbed	159	126	203	193
Medicaid acute care	507	182	250	346
Other acute care	540	644	661	692
<b>Total</b>	<b>2,450</b>	<b>2,044</b>	<b>2,510</b>	<b>2,681</b>
<b>Number of patient discharges</b>				
Medicare acute care	371	338	479	466
Swingbed	23	28	41	44
Medicaid acute care	150	72	97	120
Other acute care	64	217	218	260
<b>Total</b>	<b>608</b>	<b>655</b>	<b>835</b>	<b>890</b>
<b>Average length of patient stay</b>				
Medicare acute care	3.4	3.2	2.9	3.1
Swingbed	6.9	4.5	5.0	4.4
Medicaid acute care	3.4	2.5	2.6	2.9
Other acute care	8.4	3.0	3.0	2.7
<b>Average length of stay for acute care</b>	<b>4.0</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>

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

Management's Discussion and Analysis (continued)

**Capital Assets**

**TABLE 5**  
**Land and Depreciable Capital Assets, net**

	April 30			
	2017	2016	2015	2014
Land and land improvements	\$ 657,500	\$ 657,500	\$ 657,500	\$ 657,500
Buildings	6,400,538	5,441,401	5,406,472	5,297,426
Fixed equipment	2,702,231	2,702,231	2,702,231	2,702,231
Major movable equipment	9,910,839	8,798,514	8,380,799	9,409,495
<b>Subtotal</b>	<b>19,671,108</b>	<b>17,599,646</b>	<b>17,147,002</b>	<b>18,066,652</b>
Less accumulated depreciation and amortization	14,226,007	13,402,417	12,628,806	13,010,641
Construction-in-progress	4,324,788	3,646,435	202,533	2,610
<b>Land and depreciable capital assets, net</b>	<b>\$ 9,769,889</b>	<b>\$ 7,843,664</b>	<b>\$ 4,720,729</b>	<b>\$ 5,058,621</b>

The Hospital entered into construction contracts for expansion of the facility, which have an estimated total of \$3,849,242 as of April 30, 2017. The Hospital paid \$3,613,175 towards these commitments as of April 30, 2017.

On June 30, 2015, the Hospital signed a contract for a new computer system for an estimated \$4,981,582. As of April 30, 2017, the computer system conversion was completed and in service.

**Long-Term Debt**

Long-term debt at year end consists of three revenue bonds. During FY 2017, the Hospital made payments of \$1,526,486 to pay off capital lease obligations and pay down revenue bonds. Long-term debt increased by \$2,083,911 or 66.0% in 2017, as a result of issuing revenue bonds for construction projects in progress (ER renovation/expansion, 3<sup>rd</sup> Floor renovation, and Cerner computer conversion).

**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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of Franklin, State of Louisiana, Franklin Medical Center (the Hospital), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2017, 2016, and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

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, 2017, 2016, and 2015, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the financial information of Franklin Parish Hospital Service District No. 1 and do not purport to, and do not, present fairly the financial position of Franklin Parish Police Jury as of April 30, 2017, 2016, and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages "i" through "vi" be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements 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.



Board of Commissioners  
Hospital Service District No. 1  
Parish of Franklin, State of Louisiana  
Winnsboro, Louisiana  
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The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2017, 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 in considering the Hospital's internal control over financial reporting and compliance.

*Lester, Miller & Wells*

Certified Public Accountants

Alexandria, Louisiana  
October 17, 2017



FRANKLIN MEDICAL CENTER  
STATEMENTS OF NET POSITION  
APRIL 30,

ASSETS	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>			
Cash and cash equivalents (Note 3)	\$ 657,990	\$ 572,857	\$ 1,730,519
Short-term investments (Note 3)	622,414	921,687	918,843
Accounts receivable, net of allowances for uncollectibles (Note 4)	2,338,603	2,789,395	2,693,390
Estimated third-party payor settlements	745,510	631,352	769,628
Other receivables	25,130	126,298	493,325
Inventories	567,047	466,917	482,470
Prepaid expenses	75,997	86,151	111,143
Total Current Assets	<u>5,032,691</u>	<u>5,594,657</u>	<u>7,199,318</u>
<b>Non-Current Assets</b>			
Land	657,500	657,500	657,500
Depreciable capital assets, net (Note 5 and 6)	9,112,389	7,186,164	4,063,229
Notes receivable	121,667	199,000	435,952
Physician practice acquisition	106,692	106,692	106,692
Limited use assets (Note 7)	812,635	810,194	808,368
Intangibles	1,239,591	1,011,340	-0-
Total Assets	<u>\$ 17,083,165</u>	<u>\$ 15,565,547</u>	<u>\$ 13,271,059</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 1,764,474	\$ 931,621	\$ 898,588
Accrued salary and payroll taxes	837,374	412,969	779,067
Accrued paid time off (Note 8)	652,599	704,606	704,606
Estimated third-party payor settlements	1,973,692	1,164,933	227,052
Current portion of long-term debt (Note 9)	343,564	244,600	463,416
Total Current Liabilities	<u>5,571,703</u>	<u>3,458,729</u>	<u>3,072,729</u>
Long-term debt, net of current maturities (Note 9)	<u>5,243,598</u>	<u>3,159,687</u>	<u>673,677</u>
Total Liabilities	<u>10,815,301</u>	<u>6,618,416</u>	<u>3,746,406</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	3,525,227	3,781,877	2,926,136
Restricted	200,490	200,490	200,490
Unrestricted	2,542,147	4,964,764	6,398,027
Total Net Position	<u>6,267,864</u>	<u>8,947,131</u>	<u>9,524,653</u>
Total Liabilities and Net Position	<u>\$ 17,083,165</u>	<u>\$ 15,565,547</u>	<u>\$ 13,271,059</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Net patient service revenues (Note 10)	\$ 24,465,327	\$ 23,174,726	\$ 23,745,410
Non-restricted contributions	-0-	17,188	64,127
Operating grants	92,687	-0-	630,712
Intergovernmental transfer grants	1,286,123	1,808,499	1,224,831
Maintenance taxes	1,200,398	1,172,074	1,120,009
Other operating revenues	<u>284,645</u>	<u>209,799</u>	<u>238,606</u>
 Total Revenues	 <u>27,329,180</u>	 <u>26,382,286</u>	 <u>27,023,695</u>
Expenses			
Salaries	12,891,778	12,098,793	11,061,408
Benefits and payroll taxes	3,249,873	2,810,958	3,215,786
Supplies and drugs	1,847,920	1,760,425	1,827,522
Professional fees	4,983,027	5,115,397	4,707,783
Other expenses	5,306,657	3,832,365	4,140,923
Insurance	419,876	405,751	425,665
Depreciation and amortization	<u>1,130,007</u>	<u>1,098,786</u>	<u>1,258,914</u>
 Total Expenses	 <u>29,829,138</u>	 <u>27,122,475</u>	 <u>26,638,001</u>
 Operating Income (Loss)	 <u>(2,499,958)</u>	 <u>(740,189)</u>	 <u>385,694</u>
Nonoperating Revenues (Expenses)			
Noncapital grants	-0-	248,505	-0-
Gain (loss) on sale of assets	1,326	(4,080)	344
Interest income	11,497	22,054	5,639
Interest expense	<u>(192,132)</u>	<u>(103,812)</u>	<u>(49,670)</u>
 Changes in Net Position	 (2,679,267)	 (577,522)	 342,007
 Beginning Net Position	 <u>8,947,131</u>	 <u>9,524,653</u>	 <u>9,182,646</u>
 Ending Net Position	 \$ <u><u>6,267,864</u></u>	 \$ <u><u>8,947,131</u></u>	 \$ <u><u>9,524,653</u></u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 25,610,720	\$ 24,151,996	\$ 23,104,505
Other receipts from operations	2,965,021	3,590,261	2,798,144
Cash payments to employees and for employee-related cost	(15,769,253)	(15,269,987)	(14,217,894)
Cash payments for other operating expenses	<u>(11,814,603)</u>	<u>(11,046,223)</u>	<u>(11,116,592)</u>
Net cash provided (used) by operating activities	<u>991,885</u>	<u>1,426,047</u>	<u>568,163</u>
Cash flows from investing activities:			
Purchase of certificates of deposit	(2,441)	(921,649)	(607,878)
Proceeds from certificates of deposit	299,273	916,979	598,608
Loan to physicians	(52,000)	(80,430)	(45,130)
Purchase of physician practice	-0-	-0-	(106,692)
Cash paid for software fees	(405,335)	(1,011,340)	-0-
Interest income	<u>11,497</u>	<u>9,263</u>	<u>5,639</u>
Net cash provided (used) by investing activities	<u>(149,006)</u>	<u>(1,087,177)</u>	<u>(155,453)</u>
Cash flows from financing activities:			
Proceeds from noncapital grants	<u>-0-</u>	<u>248,505</u>	<u>-0-</u>
Net cash provided (used) by financing activities	<u>-0-</u>	<u>248,505</u>	<u>-0-</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(2,606,857)	(3,910,553)	(683,664)
Interest expense	(192,132)	(103,812)	(49,670)
Proceeds from sales of capital assets	1,820	2,134	-0-
Proceeds from revenue bonds	3,565,909	3,246,043	1,056,099
Principal payments on long-term debt	<u>(1,526,486)</u>	<u>(978,849)</u>	<u>(1,360,484)</u>
Net cash provided (used) by capital and related financing activities	<u>(757,746)</u>	<u>(1,745,037)</u>	<u>(1,037,719)</u>
Net increase (decrease) in cash and cash equivalents	85,133	(1,157,662)	(625,009)
Beginning cash and cash equivalents	<u>572,857</u>	<u>1,730,519</u>	<u>2,355,528</u>
Ending cash and cash equivalents	<u>\$ 657,990</u>	<u>\$ 572,857</u>	<u>\$ 1,730,519</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>184,502</u>	\$ <u>85,582</u>	\$ <u>49,670</u>
Equipment acquired through capital lease agreements	\$ <u>143,452</u>	\$ <u>-0-</u>	\$ <u>218,270</u>
Reconciliation of income from operations to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,499,958)	\$ (740,189)	\$ 385,694
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,130,007	1,098,786	1,258,914
Provision for bad debts	5,473,388	5,005,181	6,663,543
Changes in current assets (increase) decrease:			
Accounts receivable	(5,022,596)	(5,101,186)	(7,008,188)
Estimated third-party payor settlements	(114,158)	138,276	(383,816)
Other receivables	101,168	379,818	(488,638)
Inventories	(100,130)	15,553	(61,706)
Prepaid expenses	10,154	24,992	(51,045)
Changes in current liabilities increase (decrease):			
Accounts payable	832,853	33,033	85,920
Accrued salary and payroll taxes	424,405	(366,098)	6,413
Accrued paid time off	(52,007)	-0-	66,020
Estimated third-party payor settlements	<u>808,759</u>	<u>937,881</u>	<u>95,052</u>
Net cash provided (used) by operating activities	\$ <u>991,885</u>	\$ <u>1,426,047</u>	\$ <u>568,163</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

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, and three rural health clinics.

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.

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 ninety (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.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 collectability 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.

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.

Inventories

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

Income Taxes

The District is a political subdivision and exempt from taxation.

Capital Assets

Capital assets are 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.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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 Position

The Hospital classifies net position into three components: invested in capital assets, net of related debt; restricted and unrestricted. Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted consists of assets that have constraints that are externally 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 are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

Restricted Revenues

When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

Patient Accounts Receivable

Patient accounts receivable are carried at a net amount determined by the original charges for the services provided, less an estimate made for contractual adjustments or discounts provided to the third-party payors, less any payments received and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by utilizing a historical experience applied to an aging of accounts. Patient accounts receivable are written off as a bad debt expense when deemed uncollectible. Recoveries of receivables previously written off as bad debt expense are recorded as a reduction of bad debt expense when received.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from the State of Louisiana, individuals, or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either a specific operating purpose or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose, "cash in banks" is comprised of the account balances according to the bank's records.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. 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 as of April 30, 2017 and 2016. As of April 30, 2015, the Hospital had deposits of \$19,240, which were unsecured.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Account balances according to banks' records at April 30, 2017, for the Hospital are as follows:

	Franklin State Bank	Winnsboro State Bank	Progressive Bank
Cash in banks	\$ <u>1,681,142</u>	\$ <u>29,857</u>	\$ <u>663,758</u>
Insured by FDIC	\$ <u>395,046</u>	\$ <u>28,587</u>	\$ <u>250,000</u>
Collateralization by fair market value	\$ <u>1,286,096</u>	\$ <u>-0-</u>	\$ <u>413,758</u>
Uncollateralized	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Carrying amount			
Deposits	\$ 356,453	\$ 272,029	\$ 1,429,991
Investments	<u>1,736,586</u>	<u>2,032,709</u>	<u>2,027,739</u>
	\$ <u>2,093,039</u>	\$ <u>2,304,738</u>	\$ <u>3,457,730</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 657,990	\$ 572,857	\$ 1,730,519
Short-term investments	622,414	921,687	918,843
Assets whose use is limited	<u>812,635</u>	<u>810,194</u>	<u>808,368</u>
	\$ <u>2,093,039</u>	\$ <u>2,304,738</u>	\$ <u>3,457,730</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable at April 30 is presented below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Patients	\$ 20,784,903	\$ 22,133,574	\$ 17,846,390
Estimated allowances for uncollectibles	<u>(18,446,300)</u>	<u>(19,344,179)</u>	<u>(15,153,000)</u>
Net accounts receivable	\$ <u>2,338,603</u>	\$ <u>2,789,395</u>	\$ <u>2,693,390</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	3%	2%	3%
Medicaid	4%	4%	4%
Commercial and other third-party payors	3%	5%	6%
Patients	<u>90%</u>	<u>89%</u>	<u>87%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital assets, and related accumulated depreciation at April 30:

	<u>2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>2017</u>
Buildings	\$ 5,440,907	\$ 959,631	\$ -0-	\$ 6,400,538
Leasehold improvements	2,702,231	-0-	-0-	2,702,231
Furniture and equipment	8,798,514	1,112,325	-0-	9,910,839
Construction in progress	<u>3,646,435</u>	<u>2,031,380</u>	<u>1,353,027</u>	<u>4,324,788</u>
Total	20,588,087	4,103,336	1,353,027	23,338,396
Accumulated depreciation	<u>13,402,417</u>	<u>823,590</u>	<u>-0-</u>	<u>14,226,007</u>
Net	\$ <u>7,185,670</u>	\$ <u>3,279,746</u>	\$ <u>1,353,027</u>	\$ <u>9,112,389</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>2016</u>
Buildings	\$ 5,406,472	\$ 34,929	\$ -0-	\$ 5,441,401
Leasehold improvements	2,702,231	-0-	-0-	2,702,231
Furniture and equipment	8,380,799	441,622	23,907	8,798,514
Construction in progress	<u>202,533</u>	<u>3,453,892</u>	<u>9,990</u>	<u>3,646,435</u>
Total	16,692,035	3,930,443	33,897	20,588,581
Accumulated depreciation	<u>12,628,806</u>	<u>781,404</u>	<u>7,793</u>	<u>13,402,417</u>
Net	<u>\$ 4,063,229</u>	<u>\$ 3,149,039</u>	<u>\$ 26,104</u>	<u>\$ 7,186,164</u>
	<u>2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>2015</u>
Buildings	\$ 5,297,426	\$ 109,046	\$ -0-	\$ 5,406,472
Leasehold improvements	2,702,231	-0-	-0-	2,702,231
Furniture and equipment	9,409,495	592,964	1,621,660	8,380,799
Construction in progress	<u>2,610</u>	<u>202,533</u>	<u>2,610</u>	<u>202,533</u>
Total	17,411,762	904,543	1,624,270	16,692,035
Accumulated depreciation	<u>13,010,641</u>	<u>1,022,050</u>	<u>1,403,885</u>	<u>12,628,806</u>
Net	<u>\$ 4,401,121</u>	<u>\$ (117,507)</u>	<u>\$ 220,385</u>	<u>\$ 4,063,229</u>

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.

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)

Cost or Fair Market Value on the Date of Donation	<u>2017</u>	<u>2016</u>	<u>2015</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	1,842,500	1,842,500	1,842,500
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>2,031,216</u>	<u>2,031,216</u>	<u>2,031,216</u>
Book value of property, plant and equipment	<u>\$ 27,500</u>	<u>\$ 27,500</u>	<u>\$ 27,500</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 - LIMITED USE ASSETS

The following assets are restricted as to use as designated below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>By Third Parties</u>			
LHA Trust deposits	\$ 200,490	\$ 200,490	\$ 200,490
<u>By Board</u>			
For capital improvements	<u>612,145</u>	<u>609,704</u>	<u>607,878</u>
	<u>\$ 812,635</u>	<u>\$ 810,194</u>	<u>\$ 808,368</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 8 – PAID TIME OFF

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$652,599, \$704,606 and \$704,606 of vacation pay at April 30, 2017, 2016 and 2015. 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:

	<u>2016</u>	<u>Additions</u>	<u>Payments</u>	<u>2017</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ -0-	\$ 143,452	\$ 20,363	\$ 123,089	\$ 31,316
Revenue bonds, Series 2014	3,359,687	240,730	198,250	3,402,167	200,000
Revenue bonds, Series 2015	44,600	2,125,179	107,873	2,061,906	112,248
Revenue bonds, Series 2016A	<u>-0-</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>3,404,287</u>	\$ <u>3,709,361</u>	\$ <u>1,526,486</u>	\$ <u>5,587,162</u>	\$ <u>343,564</u>

	<u>2015</u>	<u>Additions</u>	<u>Payments</u>	<u>2016</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ 779,374	\$ -0-	\$ 779,374	\$ -0-	\$ -0-
Revenue bonds, Series 2014	357,719	3,201,443	199,475	3,359,687	200,000
Revenue bonds, Series 2015	<u>-0-</u>	<u>44,600</u>	<u>-0-</u>	<u>44,600</u>	<u>44,600</u>
Total	\$ <u>1,137,093</u>	\$ <u>3,246,043</u>	\$ <u>978,849</u>	\$ <u>3,404,287</u>	\$ <u>244,600</u>

	<u>2014</u>	<u>Additions</u>	<u>Payments</u>	<u>2015</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ 1,441,478	\$ -0-	\$ 662,104	\$ 779,374	\$ 263,416
Franklin State Bank loan	-0-	498,380	498,380	-0-	-0-
Revenue bonds, Series 2014	<u>-0-</u>	<u>557,719</u>	<u>200,000</u>	<u>357,719</u>	<u>200,000</u>
Total	\$ <u>1,441,478</u>	\$ <u>1,056,099</u>	\$ <u>1,360,484</u>	\$ <u>1,137,093</u>	\$ <u>463,416</u>

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 9 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at April 30, 2017:

- \$4,000,000 Revenue Bond, Series 2014 at 3.5% secured and payable solely from a pledge and dedication of Hospital levy and collection of 13 mils ad valorem tax revenue, with principal payable in annual installments of \$200,000 plus interest, starting March 1, 2015 through March 1, 2034.
- \$3,000,000 Revenue Bond, Series 2015 at 3.9% secured and payable solely from a pledge and dedication of Hospital levy and collection of 13 mils ad valorem tax revenue, with principal payable in annual installments plus interest, starting March 1, 2017 through March 31, 2035. As of April 30, 2017, \$2,169,779 has been used of the total bond allowance, leaving \$830,221 available to borrow.
- \$1,500,000 Revenue Bond, Series 2016A at 3.3% secured and payable solely from a pledge and dedication of Hospital levy and collection of 13 mils ad valorem tax revenue, with principal and interest payable on March 15, 2017.
- Capital lease obligation at rate of imputed interest of 3.379%, with 54 monthly payments of \$2,916 until January 2021, collateralized by leased equipment with a cost of \$143,452 and a book value of \$122,959 at April 30, 2017.

<u>Year Ending April 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 312,248	\$ 199,490	\$ 31,316	\$ 3,677
2019	316,800	188,113	32,391	2,602
2020	321,241	176,557	33,502	1,491
2021	326,454	164,829	25,879	366
2022	331,582	152,897	-0-	-0-
2023-2027	1,742,152	578,250	-0-	-0-
2028-2032	1,711,429	246,305	-0-	-0-
2033-2034	402,167	21,152	-0-	-0-
Totals	\$ <u>5,464,073</u>	\$ <u>1,727,593</u>	\$ <u>123,088</u>	\$ <u>8,136</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. The Hospital qualified for a Medicare low volume add-

FRANKLIN MEDICAL CENTER  
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NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2017, if not extended by Congress. The additional payment received under the Medicare low volume add-on was \$452,826, \$428,322, and \$534,756 for the years ended April 30, 2017, 2016 and 2015, respectively. Because the Hospital qualifies as a Medicare Dependent Hospital (MDH), it receives additional reimbursement. The additional payments received under MDH status were \$155,213, \$172,621, and \$91,717 for the years ended April 30, 2017, 2016 and 2015, respectively. The benefits related to MDH designation expire on September 30, 2017. Outpatient services related to Medicare beneficiaries were paid based on a set fee per diagnosis. Swing bed services are reimbursed based on a prospectively determined rate per patient day. 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 Medicare fiscal intermediary.

The District's Medicare cost reports have been examined by the Medicare fiscal intermediary through April 30, 2015.

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, 2012.

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. Blue Cross Blue Shield (BCBS) is the largest commercial provider. BCBS charges were 9.9%, 10.3%, and 10.4% of the total gross charges for the years ended April 30, 2017, 2016 and 2015, respectively.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gross charges	\$ 75,066,188	\$ 74,229,851	\$ 65,495,965
Less charges associated with charity patients	<u>3,048,734</u>	<u>1,843,514</u>	<u>5,914</u>
Gross patient service revenues	72,017,454	72,386,337	65,490,051
Less deductions from revenue:			
Contractual adjustments	42,428,707	44,198,505	35,075,878
Policy and other discounts	117,391	7,925	5,220
Physician supplement revenue	<u>(467,359)</u>	<u>-0-</u>	<u>-0-</u>
Patient service revenue (net of contractual adjustments and discounts)	29,938,715	28,179,907	30,408,953
Less provision for bad debts	<u>(5,473,388)</u>	<u>(5,005,181)</u>	<u>(6,663,543)</u>
Net patient service revenue less provision for bad debts	<u>\$ 24,465,327</u>	<u>\$ 23,174,726</u>	<u>\$ 23,745,410</u>

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

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>2017</u>	<u>2016</u>	<u>2015</u>
Medicare and Medicaid patient charges	\$ 52,597,312	\$ 46,867,763	\$ 42,100,110
Contractual adjustments	<u>(31,012,726)</u>	<u>(32,189,491)</u>	<u>(24,904,968)</u>
Program patient service revenue	\$ <u>21,584,586</u>	\$ <u>14,678,272</u>	\$ <u>17,195,142</u>
Percent of total gross patient charges	<u>73%</u>	<u>63%</u>	<u>64%</u>
Percent of total net patient revenues	<u>88%</u>	<u>63%</u>	<u>72%</u>

The Hospital experienced differences between the amounts initially recorded on its cost settlements with Medicare and Medicaid and the finalized amounts. The adjustments resulted in a decrease of \$377,042 in 2016 net patient service revenue and in an increase of \$15,489 in 2017 in net patient service revenue.

The Patient Protection and Affordable Care Act (PPACA) was passed into law in 2010. This federal legislation is extremely complex and will substantially change the landscape of the healthcare industry. The PPACA has the potential to affect both payment rates and coverage issues for all healthcare payors. While the overall impact of the PPACA cannot currently be estimated, it would have a negative impact on the District's revenues.

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.

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

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.

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 participates in the Louisiana Hospital Association's Self-Insurance Professional Liability Trust Fund. Should the Fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

Worker's Compensation - The Hospital participates in the Louisiana Hospital Association's Self-Insurance Worker's Compensation Trust Fund. Should the Fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 13 - EMPLOYEE MEDICAL BENEFIT PLAN

The Hospital is self-insured to provide group medical coverage for its employees. A third-party administers the group medical coverage for the Hospital. The Hospital funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$80,000 or aggregate claims exceeding \$2,773,324 per plan year. There were no significant changes in insurance coverage from the prior year; however, there was a change in the third-party administrator. A liability is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims' experience, recently settled claims, and frequency of claims. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. The following is a summary of the changes in the Hospital's claims liability for the years ended April 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning of the year	\$ 275,073	\$ 248,990	\$ 248,990
Plus: Claims incurred and changes in estimate	2,021,568	1,671,764	2,261,968
Less: Claims paid	<u>1,701,498</u>	<u>1,645,681</u>	<u>2,261,968</u>
End of the year	<u>\$ 595,143</u>	<u>\$ 275,073</u>	<u>\$ 248,990</u>

NOTE 14 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by Lincoln Financial Group 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 the IRS allowable amount and the District matches the first 3% of the employees' contributions. Employees are vested after 5 years, if they are disabled, or when they reach retirement age (65). Actual contributions made by the District for the years ended April 30, 2017, 2016 and 2015 were \$177,984, \$190,364, and \$115,981. The employees of the District contributed \$378,645, \$302,329, and \$323,666 for the years ended April 30, 2017, 2016 and 2015, respectively.

NOTE 15 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2017:

Nicholas Poulos  
 Michael Wright  
 Paul Price, Jr.  
 Dr. Jan Hicks  
 Greg Kincaid

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 16 - OPERATING LEASES

The Hospital is committed under various noncancelable operating leases, all of which are for equipment or buildings. These expire in various years through FY 2021. Future minimum lease payments are as follows:

<u>Year Ending April 30,</u>	<u>Amount</u>
2018	\$ 385,104
2019	385,104
2020	385,104
2021	300,572
2022	<u>258,312</u>
Total minimum lease payments	\$ <u>1,714,196</u>

NOTE 17 - GRANT REVENUE

In 2015 the Hospital (Grantee) entered into a cooperative endeavor agreement (CEA) with a regional public rural hospital (Grantor) whereby the Grantor awards as an intergovernmental transfer grant (IGT) to be used solely to provide adequate and essential medically necessary and available healthcare services to Grantee's service population subject to the availability of such grant funds. The aggregate IGT grant income is \$1,286,123, \$1,808,499 and \$1,224,831 for fiscal years 2017, 2016 and 2015, respectively.

The Hospital recognized operating grant income of approximately \$517,794 from Medicare for the year ended April 30, 2015, as an incentive for implementing electronic health records (EHR). The key component of receiving the EHR incentive payments is "demonstrating meaningful use", which is meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The Hospital met Stage 1 criteria during FY 2013, which include electronically capturing health information in a coded format and using certified EHR technology to meet certain required core objectives for a continuous ninety day period. The Hospital's policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management's best estimate. The payments can be retained and additional payments can be earned for each stage if the Hospital meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

Various other grants were received during the year for other uses.

FRANKLIN MEDICAL CENTER  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 18 - CHARITY CARE

The Hospital provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% of the charity care or owe a reduced “sliding scale” amount based on the patient’s level of income in comparison to the Federal Poverty Guidelines based on a 200% scale. Accordingly, the Hospital does not report the amount it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies and other operating expenses. The costs of caring for charity care patients were approximately \$1,219,000, \$861,000, and \$131,000 for the years ended April 30, 2017, 2016 and 2015, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$594,000, \$107,000, and \$133,000 for the years ended April 30, 2017, 2016 and 2015, respectively.

NOTE 19 - AD VALOREM TAXES

The Hospital levies a property tax on all property subject to taxation in the service district. A 13 mill tax is approved for a period of twenty-five years, beginning with the year 2014 and ending with the year 2039, to be dedicated and used for operating, maintaining, renovating, and improving emergency medical services. Property taxes are collected through the local sheriff’s office and remitted, net of collection fees, to the District. Property tax notices are mailed by November 15 each year, are due by December 31, and become delinquent on January 31.

NOTE 20 - COMMITMENTS

The Hospital entered into a construction contract for expansion of the facility. The construction contract totaled \$3,849,242, including change orders, with payments of \$3,613,175 made as of April 30, 2017.

The Hospital also has a software commitment for computer licenses and fees. The payments are as follows:

<u>Year Ending April 30,</u>	<u>Amount</u>
2018	\$ 726,476
2019	726,476
2020	726,476
2021	726,476
2022	<u>479,516</u>
Total future commitment payments	<u>\$ 3,385,420</u>

FRANKLIN MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2017, 2016 AND 2015

NOTE 21 – INTANGIBLES

The Hospital entered into a cloud-based software agreement for electronic health records. The Hospital incurred approximately \$1,240,000 before the software was implemented. This amount was capitalized as an intangible asset and will be amortized over the remaining life of the software agreement. The remaining payments will be expensed as incurred since the Hospital did not take possession of the asset.

NOTE 22 - SUBSEQUENT EVENTS

The Hospital opened and began operating a rehabilitation unit on May 1, 2017.

Events have been evaluated through October 17, 2017, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Routine Services:			
Adults and pediatric	\$ 1,708,311	\$ 1,269,725	\$ 1,208,665
Intensive care unit	214,231	203,550	192,325
Swing bed	<u>109,621</u>	<u>79,950</u>	<u>90,550</u>
 Total	 <u>2,032,163</u>	 <u>1,553,225</u>	 <u>1,491,540</u>
Other Professional Services:			
Operating room			
Inpatient	249,793	321,222	365,353
Outpatient	<u>3,269,488</u>	<u>5,490,035</u>	<u>3,420,421</u>
 Total	 <u>3,519,281</u>	 <u>5,811,257</u>	 <u>3,785,774</u>
Recovery room			
Inpatient	14,025	15,375	17,925
Outpatient	<u>312,000</u>	<u>244,950</u>	<u>174,450</u>
 Total	 <u>326,025</u>	 <u>260,325</u>	 <u>192,375</u>
Anesthesia			
Inpatient	8,191	44,809	46,643
Outpatient	<u>184,026</u>	<u>674,765</u>	<u>470,899</u>
 Total	 <u>192,217</u>	 <u>719,574</u>	 <u>517,542</u>
Radiology			
Inpatient	1,017,238	881,210	1,006,911
Outpatient	<u>13,012,126</u>	<u>12,727,549</u>	<u>10,195,168</u>
 Total	 <u>14,029,364</u>	 <u>13,608,759</u>	 <u>11,202,079</u>
Laboratory			
Inpatient	706,189	578,546	1,230,238
Outpatient	<u>7,044,959</u>	<u>6,604,001</u>	<u>5,414,626</u>
 Total	 <u>\$ 7,751,148</u>	 <u>\$ 7,182,547</u>	 <u>\$ 6,644,864</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Blood			
Inpatient	\$ 144,384	\$ 113,371	\$ 196,257
Outpatient	<u>374,758</u>	<u>287,226</u>	<u>275,968</u>
Total	<u>519,142</u>	<u>400,597</u>	<u>472,225</u>
Respiratory care			
Inpatient	2,215,591	2,335,520	2,800,537
Outpatient	<u>1,921,747</u>	<u>2,089,818</u>	<u>2,331,658</u>
Total	<u>4,137,338</u>	<u>4,425,338</u>	<u>5,132,195</u>
Physical therapy - inpatient	<u>37,539</u>	<u>132,847</u>	<u>62,356</u>
EKG			
Inpatient	106,720	90,116	116,003
Outpatient	<u>641,714</u>	<u>615,986</u>	<u>562,564</u>
Total	<u>748,434</u>	<u>706,102</u>	<u>678,567</u>
Central supply			
Inpatient	337,407	330,198	401,585
Outpatient	<u>1,997,014</u>	<u>1,480,292</u>	<u>1,567,520</u>
Total	<u>2,334,421</u>	<u>1,810,490</u>	<u>1,969,105</u>
Pharmacy			
Inpatient	1,818,917	1,631,155	2,508,596
Outpatient	<u>5,138,346</u>	<u>6,883,101</u>	<u>5,614,810</u>
Total	<u>6,957,263</u>	<u>8,514,256</u>	<u>8,123,406</u>
Intensive outpatient program	<u>1,775,501</u>	<u>2,042,309</u>	<u>1,733,911</u>
Emergency room			
Inpatient	1,125,884	991,159	1,323,614
Outpatient	<u>14,775,090</u>	<u>12,444,327</u>	<u>8,988,631</u>
Total	<u>\$ 15,900,974</u>	<u>\$ 13,435,486</u>	<u>\$ 10,312,245</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Observation room			
Inpatient	\$ 74,352	\$ (1,550)	\$ 123,054
Outpatient	<u>1,443,414</u>	<u>2,234,784</u>	<u>1,973,980</u>
Total	<u>1,517,766</u>	<u>2,233,234</u>	<u>2,097,034</u>
Rural health clinic - outpatient	<u>10,415,586</u>	<u>8,239,501</u>	<u>7,268,782</u>
Ambulance - outpatient	<u>24,633</u>	<u>2,514</u>	<u>5,540</u>
Wound care - outpatient	<u>-0-</u>	<u>1,648</u>	<u>1,429,469</u>
Nurse family partnership - outpatient	<u>296,346</u>	<u>438,549</u>	<u>257,646</u>
Urology clinic	<u>1,527,851</u>	<u>1,729,639</u>	<u>877,686</u>
Private physician office - outpatient	<u>1,023,196</u>	<u>981,654</u>	<u>1,241,624</u>
Total Other Professional Services	<u>73,034,025</u>	<u>72,676,626</u>	<u>64,004,425</u>
Gross charges	<u>75,066,188</u>	<u>74,229,851</u>	<u>65,495,965</u>
Less charges associated with charity patients	<u>(3,048,734)</u>	<u>(1,843,514)</u>	<u>(5,914)</u>
Gross patient service revenue	72,017,454	72,386,337	65,490,051
Less deductions from revenue:			
Contractual adjustments	42,428,707	44,198,505	35,075,878
Policy and other discounts	117,391	7,925	5,220
Physician supplement revenue	<u>(467,359)</u>	<u>-0-</u>	<u>-0-</u>
Patient service revenue (net of contractual adjustments ad discounts)	<u>29,938,715</u>	<u>28,179,907</u>	<u>30,408,953</u>
Less provision for bad debts	<u>(5,473,388)</u>	<u>(5,005,181)</u>	<u>(6,663,543)</u>
Net Patient Service Revenue	\$ <u>24,465,327</u>	\$ <u>23,174,726</u>	\$ <u>23,745,410</u>

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

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Cafeteria sales	\$ -0-	\$	665	\$	35,832
Vending machine commission	3,468		2,516		2,807
Physician office rentals	57,490		13,550		18,203
Medical records abstract fees	22,874		19,004		17,617
Miscellaneous revenue	<u>200,813</u>		<u>174,064</u>		<u>164,147</u>
 Total other operating revenues	 \$ <u>284,645</u>	\$	 <u>209,799</u>	\$	 <u>238,606</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Personnel	\$ 96,765	\$ 91,417	\$ 84,344
Administration	1,441,300	1,451,718	1,244,916
Plant operations and maintenance	220,080	213,892	178,880
Housekeeping	41,035	164,381	151,832
Dietary and cafeteria	-0-	-0-	85,082
Purchasing	71,754	72,862	72,160
Pharmacy	381,345	372,149	343,018
Nursing administration	370,590	367,684	310,120
Medical records	319,088	325,752	250,768
Nursing services, acute care	1,606,149	1,456,458	1,443,646
Nursing services, intensive care unit	189,247	257,706	194,512
Nursing services, Rehab Unit	16,431	-0-	-0-
Operating room	396,890	270,688	251,302
Radiology	517,314	515,145	468,320
Laboratory	620,373	574,527	612,404
Respiratory care	533,818	519,188	492,219
Intensive outpatient program	256,482	300,778	297,125
Wound care	-0-	-0-	40,713
Emergency room	1,300,990	1,102,593	1,072,371
Rural health clinic	2,520,704	2,225,017	2,014,517
Nurse family partnership	236,562	264,348	235,158
Spa	1,238	16,351	33,842
Transportation	89,903	82,751	82,624
Urology clinic	775,085	746,650	503,612
Private physician office	<u>888,635</u>	<u>706,738</u>	<u>597,923</u>
 Total salaries	 <u>12,891,778</u>	 <u>12,098,793</u>	 <u>11,061,408</u>
 Payroll taxes	 892,325	 814,093	 738,528
Health insurance	2,024,728	1,673,616	2,261,968
Pension plan	177,984	190,364	115,981
Other	<u>154,836</u>	<u>132,885</u>	<u>99,309</u>
 Total benefits	 <u>3,249,873</u>	 <u>2,810,958</u>	 <u>3,215,786</u>
 Total salaries and benefits	 <u>\$ 16,141,651</u>	 <u>\$ 14,909,751</u>	 <u>\$ 14,277,194</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nursing service	\$ 1,862	\$ 1,710	\$ 2,167
Intensive care unit	-0-	70,000	23,710
Operating room	5,319	294	200
Anesthesiology	154,572	280,000	290,769
Radiology	585,024	694,405	470,509
Laboratory	346,157	279,710	278,927
Respiratory therapy	84,456	63,674	137,987
Physical therapy	5,385	9,480	5,865
EKG	33,183	34,053	30,600
IOP	2,404	196	2,125
Pharmacy	64,209	3,216	2,442
Emergency room	746,145	848,888	920,457
Rural health clinic	2,943,553	2,688,656	2,498,451
Urology clinic	6,615	138,714	44,654
Private physician office	<u>4,143</u>	<u>2,401</u>	<u>(1,080)</u>
 Total professional fees	 \$ <u>4,983,027</u>	 \$ <u>5,115,397</u>	 \$ <u>4,707,783</u>

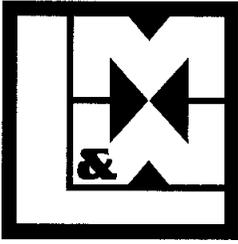
FRANKLIN MEDICAL CENTER  
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES  
YEARS ENDED APRIL 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Miscellaneous service fees	\$ 2,609,230	\$ 1,904,063	\$ 2,014,371
Legal and accounting	160,900	86,192	159,685
Supplies	184,348	258,100	322,135
Minor equipment	74,367	37,057	84,925
Repairs and maintenance	145,820	88,427	55,237
Utilities	396,469	402,881	443,976
Telephone	70,508	57,467	78,095
Travel	54,551	50,001	59,988
Rentals	387,241	435,231	259,402
Education	29,385	18,700	27,673
Dues and subscriptions	924,175	326,723	468,750
Recruitment and advertising	38,217	56,317	66,815
Miscellaneous	<u>231,446</u>	<u>111,206</u>	<u>99,871</u>
 Total other expenses	 \$ <u>5,306,657</u>	 \$ <u>3,832,365</u>	 \$ <u>4,140,923</u>

FRANKLIN MEDICAL CENTER  
 SCHEDULE OF COMPENSATION, BENEFITS AND OTHER  
 PAYMENTS TO ADMINISTRATOR  
 YEAR ENDED APRIL 30, 2017

Agency Head Name: Blake Kramer  
 Position: Administrator  
 Time Period: May 1, 2016 to April 30, 2017

Purpose	Amount
Salary	176,042
Health insurance	6,061
Retirement	5,281
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	215
Travel	624
Registration fees	520
Conference travel	2,159
Continuing professional education fees	-0-
Housing	-0-
Unvouchered expenses	-0-
Special meals	-0-
Professional dues	1,925
Cell phone	379



## **LESTER, MILLER & WELLS**

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Retired 2015  
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### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 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, the financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center"), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2017, 2016, and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated October 17, 2017.

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

In planning and performing our audit of the financial statements, we considered Franklin Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Franklin Medical Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2017-01 through 2017-11.

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

### **Compliance and Other Matters**

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 grant agreements, 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 or other matter that is required to be reported under Government Auditing Standards.

### **Franklin Medical Center's Response to Findings**

Franklin Medical Center's response to the findings identified in our audit is described in the accompanying schedule of findings. Franklin Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Franklin Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lester, Miller & Wells*

Certified Public Accountants  
Alexandria, Louisiana

October 17, 2017



FRANKLIN MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section I. Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

*Federal Awards* – Not applicable

**Section II. Financial Statement Findings**

**FINDING 2017-01 – Draft of Financial Statements**

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006 SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** Management will do all it can to ensure propriety of audited financial statements and disclosures. However, it is more cost efficient and cost effective for external auditors to prepare the year-end audit and disclosures. Unlike small rural hospitals, external auditors have the resources of not only adequate staff, but also the availability of continuing education courses which are necessary to complete the reporting requirements that are constantly changing.

**Finding 2017-02 – Medicaid Cost Reimbursement**

**Finding:** The client did not prepare and record an estimate for the cost reimbursement of the Medicaid program. Net patient service revenue was overstated by \$706,669.

**Recommendation:** Management should utilize an estimate for cost reimbursement based on claims paid and current cost, charges and volume. Estimates should be reviewed quarterly and at year end, and adjusted as necessary.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section II. Financial Statement Findings (Continued)**

**Finding 2017-02 – Medicaid Cost Reimbursement (Continued)**

**Response:** This was caused by a combination of things including the Hospital increasing patient charges and Medicaid payers making improper interim payments. The Hospital has set up new procedures to adjust allowance estimates based on current patient billing and payment rate data instead of historical charges and payments received.

**Finding 2017-03 – Credit Balances**

**Finding:** The credit balance for accounts receivable has increased continually since 2011 and remains higher than expected compared to the accounts receivable balance.

**Recommendation:** We recommend the Hospital assign the duty of investigating credit balances on patient accounts to one person who will make necessary adjustments to or timely refunds of the balances as needed on a monthly basis.

**Response:** The Hospital reduced total credit balances significantly during this year, but is still above industry benchmarks. Patient Accounts Director will regularly monitor credit balances and make adjustments and issue refunds as appropriate. Patient Accounts Director will also require routine monthly reporting of credit balances from billing company. CFO will review credit balances at least quarterly, emphasizing maintaining credit balances at or below industry benchmark levels.

**Finding 2017-04 – Depreciation Expense**

**Finding:** Depreciation and amortization expense was recorded using an estimate based on the prior year amount and was not adjusted for fiscal year changes. As a result, depreciation and amortization expense was understated by \$284,528, and net capital assets were likewise overstated.

**Recommendation:** Management should utilize an estimate for depreciation based on future projections and taking into account new additions purchased throughout the year. The depreciation expense should be updated to actual expense periodically during the year.

**Response:** Fixed asset reporting has not been done in-house. Expenses were understated due to the use of prior numbers, not taking into account a high number of assets fully depreciated in the current fiscal year. With implementation of the new computer system, Fixed asset reporting will be done in-house and the Hospital will be able to calculate actual depreciation expense on a monthly basis instead of using historical estimates.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section II. Financial Statement Findings (Continued)**

**Finding 2017-05 – Amortization of Student Loans**

**Finding:** Amortization of student loans was not recorded during the fiscal year. As a result, amortization expense was understated by approximately \$129,000, and receivables were likewise overstated.

**Recommendation:** We recommend recording amortization on a monthly basis for the physician and nurses' student loans as they are earned via employment. A schedule of the loans should be maintained and reconciled to the general ledger.

**Response:** Hospital will prepare and maintain a schedule of outstanding student loans and regularly review and reconcile that schedule to the general ledger.

**Finding 2017-06 – Operating Leases**

**Finding:** Operating lease payments on two leases were coded against a liability account. Additionally, one lease, which contained a bargain purchase option, was not capitalized. This resulted in expenses being understated by approximately \$561,000, while liabilities were overstated by \$521,000.

**Recommendation:** Management should review lease obligations and seek an opinion if needed to make the determination of operating versus capitalization. Additionally, a long-term debt schedule should be maintained.

**Response:** Hospital will prepare and maintain a schedule of capital and operating leases, and regularly review and reconcile that schedule to the general ledger.

**Finding 2017-07 – Service Organization Control Report**

**Finding:** Management did not acquire a service organization control (SOC) report in a timely manner.

**Recommendation:** A SOC report should be acquired timely so management can have assurance the service organization controls are adequate to mitigate risks.

**Response:** The service organization in question performs their duties inside the Hospital computer system, and all trust services principles in use in the Hospital's performance of duties also apply to the service organization. As such, the Hospital has not required a formal SOC report in the past. The Hospital will require SOC reports from service organizations so that the Hospital can more fully evaluate any risks associated with activities performed by the service company.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section II. Financial Statement Findings (Continued)**

**Finding 2017-08 – Bank Reconciliations**

**Finding:** Bank reconciliations were not completed in a timely manner and therefore some adjustment to cash was not made.

**Recommendation:** We recommend reconciling checking accounts before closing the books in the following month. The reconciliation should be reviewed and approved by a supervisor.

**Response:** Bank reconciliations will be prepared by the controller and reviewed for completeness and accuracy by the CFO on a monthly basis starting October 2017.

**Finding 2017-09 – Accounts Payable**

**Finding:** Management held some invoices that were initially in dispute and therefore were not recorded in the accounts payable system. Liabilities and expense were understated by approximately \$169,000.

**Recommendation:** We recommend recording invoices in the accounts payable system in a timely manner. Invoices in dispute should be resolved timely to determine proper accounting treatment.

**Response:** The CFO will hold an in-service for all directors and managers regarding proper recording of expenses. The directors and managers will be instructed to turn in all invoices to accounts payable, regardless of approval for payment or disputed amounts so that invoices can be recorded in the accounting system properly, then any disputed amounts should be adjusted with an additional invoice when the dispute has been resolved. This will be done at the next scheduled directors meeting.

**Finding 2017-10 – Retirement Contributions**

**Finding:** The Hospital expensed both the employer's and employee's portion of the retirement payments. The employee's portion should be a reduction of the employee withholding liability account. Therefore, liabilities and expenses were overstated by approximately \$196,000.

**Recommendation:** We recommend separating the retirement payment between employee's withholding and employer's contribution to properly record in the financial statements. Payroll withholding accounts should be reconciled monthly.

**Response:** Payroll has been moved under the direction of the controller. All payroll deductions will be reconciled monthly or biweekly as appropriate. Employee and employer portions of retirement contributions will be recorded and tracked separately. This will be implemented October 2017.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section II. Financial Statement Findings (Continued)**

**Finding 2017-11 – Self-Insured Health Insurance**

**Finding:** Management did not make an estimate for claims incurred but not yet paid for employee health insurance. Therefore, liabilities and expenses were understated by approximately \$320,000.

**Recommendation:** We recommend obtaining information from the third-party administrator to estimate a liability based on current data available.

**Response:** Accounting will obtain monthly utilization reports from the third-party administrator and use that data to record an estimated liability for unpaid claims at least quarterly. The estimate will be implemented by the end of the third quarter.

**Section III. Federal Awards, Findings and Questioned Costs**

Not Applicable

**Section IV. Management Letter**

Not Applicable

FRANKLIN MEDICAL CENTER  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section I. Financial Statement Findings**

**Finding 2016-01 – Draft of Financial Statements**

**Fiscal Year Initially Reported:** April 30, 2007

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006 SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** The Hospital's accounting personnel will continue to attend education courses in order to further their knowledge of GAAP. Further, due to the size of our organization and the cost of implementation, we will continue to rely on our independent auditors to assist us in the preparation of our external financial statements.

**Resolution:** This matter has not been resolved. See Finding 2017-01.

**Finding 2016-02 – Medicaid Cost Reimbursement**

**Fiscal Year Initially Reported:** April 30, 2016

**Finding:** The client failed to prepare or record an estimate for the cost reimbursement of the Medicaid program and to adjust for prior year cost settlements. Net patient service revenue was overstated by \$1,454,842.

**Recommendation:** Management should utilize an estimate for cost reimbursement based on claims paid and current cost, charges and volume. Estimates should be reviewed quarterly and at year end, and adjusted as necessary.

**Response:** This was caused by a combination of things including the Hospital increasing patient charges and Medicaid payers making improper interim payments. The Hospital has set up new procedures to adjust allowance estimates based on current patient billing and payment rate data instead of historical charges and payments received.

**Resolution:** This matter has not been resolved. See Finding 2017-02.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section I. Financial Statement Findings (Continued)**

**Finding 2016-03 – Credit Balances**

**Fiscal Year Initially Reported:** April 30, 2008

**Finding:** The credit balance for accounts receivable has increased continually since 2011 and remains higher than expected compared to the accounts receivable balance.

**Recommendation:** We recommend the Hospital assign the duty of investigating credit balances on patient accounts to one person who will make necessary adjustments to or timely refunds of the balances as needed on a monthly basis.

**Response:** Starting May 25, 2014, Franklin Medical Center engaged the services of a third-party company, Impact Health Solutions, to manage the organization's billing activities. Proper disposition of credit balances are part of this vendor's evaluations and will be conducted by the CFO. Current expectations are that the existing credit balances will be reduced to an appropriate level by the end of first quarter 2016.

**Resolution:** This matter has not been resolved. See Finding 2017-03.

**Finding 2016-04 – Depreciation Expense**

**Fiscal Year Initially Reported:** April 30, 2016

**Finding:** Depreciation expense was recorded using an estimate based on the prior year amount and was not adjusted for fiscal year changes. As a result, depreciation expense was overstated by \$332,064, and net capital assets were likewise understated.

**Recommendation:** Management should utilize an estimate for depreciation based on future projections and taking into account new additions purchased throughout the year. The depreciation expense should be updated to actual expense periodically during the year.

**Response:** Fixed asset reporting has not been done in-house. Expenses were overstated due to the use of prior numbers, not taking into account a high number of assets fully depreciated in the current fiscal year. With implementation of the new computer system, Fixed asset reporting will be done in-house and the Hospital will be able to calculate actual depreciation expense on a monthly basis instead of using historical estimates.

**Resolution:** This matter has not been resolved. See Finding 2017-04.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section I. Financial Statement Findings (Continued)**

**Finding 2016-05 – Amortization of Student Loans**

**Fiscal Year Initially Reported:** April 30, 2016

**Finding:** Amortization of student loans was not recorded during the fiscal year. As a result, amortization expense was understated by approximately \$320,000, and receivables were overstated.

**Recommendation:** We recommend recording amortization on a monthly basis for the physician and nurses' student loans as they are earned via employment. A schedule of the loans should be maintained and reconciled to the general ledger.

**Response:** Hospital will prepare and maintain a schedule of outstanding student loans and regularly review and reconcile that schedule to the general ledger.

**Resolution:** This matter has not been resolved. See Finding 2017-05.

**Finding 2016-06 – Operating Leases**

**Fiscal Year Initially Reported:** April 30, 2016

**Finding:** Operating lease payments on two items were coded against a liability account, resulting in expense and liabilities understated by approximately \$340,000.

**Recommendation:** Management should reconcile long-term liability account balances during the year.

**Response:** Hospital will prepare and maintain a schedule of capital and operating leases, and regularly review and reconcile that schedule to the general ledger.

**Resolution:** This matter has not been resolved. See Finding 2017-06.

**Finding 2016-07 – Service Organization Control Report**

**Fiscal Year Initially Reported:** April 30, 2016

**Finding:** Management did not acquire a service organization control (SOC) report in a timely manner.

**Recommendation:** A SOC report should be acquired timely so management can have assurance the service organization controls are adequate to mitigate risks.

**Response:** The service organization in question performs their duties inside the Hospital computer system, and all trust services principles in use in the Hospital's performance of duties also apply to the service organization. As such, the Hospital has not required a formal SOC report in the past. The Hospital will require SOC reports from service organizations so that the Hospital can more fully evaluate any risks associated with activities performed by the service company.

FRANKLIN MEDICAL CENTER  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
YEAR ENDED APRIL 30, 2017

**Section I. Financial Statement Findings (Continued)**

**Finding 2016-07 – Service Organization Control Report (Continued)**

**Resolution:** This matter has not been resolved. See Finding 2017-07.

**Section II. Federal Award Findings and Questioned Costs**

Not Applicable

**Section III. Management Letter**

Not Applicable

