

FRANKLIN MEDICAL CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
APRIL 30, 2018, 2017 AND 2016



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, 2018, 2017 AND 2016

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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, 2018, 2017, and 2016. 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 increased by \$1,636,347 or 32.5% for the year ending April 30, 2018 due to an increase in cash and short-term investments.

Current liabilities decreased 11.6% to \$4,923,808, due to a decrease in accounts payable. Long-term debt increased by \$249,682 or 4.8% in FY 2018 to \$5,493,280 for draws taken against revenue bonds and the addition of three (3) new capital leases.

The net position increased by \$1,552,366, 24.8%, which is the excess of expenses over revenues for the year ending April 30, 2018. Net position as of April 30, 2018 was \$7,820,230, up from \$6,267,864 as of April 30, 2017.

Net patient revenue for FY 2018 increased by \$3,914,866 or 16.0%, from \$24,465,327 in FY 2017 due to an increase of inpatient services from the addition of an Inpatient Rehab Unit. Overall patient days increased by 1,207 days to 3,657 for the year ending April 30, 2018. While outpatient service revenues did increase in the current year, total contractual allowance adjustments increased and charity care/policy discounts decreased.

Expenses for the year ending April 30, 2018 increased by \$1,574,498 or 5.28%. Total expenses for the year ending April 30, 2018 were \$31,403,636, up from \$29,829,138 as of April 30, 2017. The increase was related to new Rehab Unit and Ortho Clinic expenses (salaries, supplies & drugs, professional fees, etc.).

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) increased by \$1,552,366. 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,			
	2018	2017	2016	2015
Total current assets	\$ 6,669,038	\$ 5,032,691	\$ 5,594,657	\$ 7,199,318
Land and depreciable capital assets, net	9,593,366	9,769,889	7,843,664	4,720,729
Limited use assets	816,375	812,635	810,194	808,368
Other non-current assets	1,158,539	1,467,950	1,317,032	542,644
Total assets	\$ 18,237,318	\$ 17,083,165	\$ 15,565,547	\$ 13,271,059
Total current liabilities	\$ 4,923,808	\$ 5,571,703	\$ 3,458,729	\$ 3,072,729
Long-term debt, net of current maturities	5,493,280	5,243,598	3,159,687	673,677
Total liabilities	10,417,088	10,815,301	6,618,416	3,746,406
Net position				
Invested in capital assets, net of related debt	3,014,443	3,525,227	3,781,877	2,926,136
Restricted	200,490	200,490	200,490	200,490
Unrestricted	4,605,297	2,542,147	4,964,764	6,398,027
Total liabilities and net position	\$ 18,237,318	\$ 17,083,165	\$ 15,565,547	\$ 13,271,059

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,			
	2018	2017	2016	2015
Net patient service revenue	\$28,380,193	\$24,465,327	\$23,174,726	\$23,745,410
Other revenue	4,781,666	2,863,853	3,207,560	3,278,285
Total operating revenue	33,161,859	27,329,180	26,382,286	27,023,695
Salaries and employee benefits	16,309,630	16,141,651	14,909,751	14,277,194
Supplies and other	2,307,115	1,847,920	1,760,425	1,827,522
Professional, mgt. and consulting fees	5,420,085	4,983,027	5,115,397	4,707,783
Other expense	5,509,694	5,306,657	3,832,365	4,140,923
Insurance	454,288	419,876	405,751	425,665
Depreciation and amortization	1,402,824	1,130,007	1,098,786	1,258,914
Total operating expenses	31,403,636	29,829,138	27,122,475	26,638,001
Operating income (loss)	1,758,223	(2,499,958)	(740,189)	385,694
Nonoperating income	(205,857)	(179,309)	162,667	(43,687)
Changes in net position	1,552,366	(2,679,267)	(577,522)	342,007
Net position - beginning of year	6,267,864	8,947,131	9,524,653	9,182,646
Net position - end of year	\$ 7,820,230	\$ 6,267,864	\$ 8,947,131	\$ 9,524,653

Sources of Revenue

Operating Revenue

During fiscal year 2018, 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 was 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, 2018, 2017, 2016 and 2015.

TABLE 3
Medicare & Medicaid Patient Revenue

	Years ended April 30,			
	2018	2017	2016	2015
Medicare and Medicaid patient charges	\$60,673,509	\$52,597,312	\$46,867,763	\$42,100,110
Contractual adjustments	38,735,552	31,012,726	32,189,491	24,904,968
Net Medicare and Medicaid revenue	\$21,937,957	\$21,584,586	\$14,678,272	\$17,195,142
Percent of total patient gross charges	74%	70%	63%	64%
Percent of total net patient revenues	77%	88%	63%	72%

Operating and Financial Performance

TABLE 4
Patient Statistics

	Years ended April 30,			
	2018	2017	2016	2015
Number of patient days				
Medicare acute and rehab care	2,182	1,244	1,092	1,396
Swingbed	407	159	126	203
Medicaid acute and rehab care	481	507	182	250
Other acute and rehab care	587	540	644	661
Total	3,657	2,450	2,044	2,510
Number of patient discharges				
Medicare acute and rehab care	484	371	338	479
Swingbed	59	23	28	41
Medicaid acute and rehab care	121	150	72	97
Other acute and rehab care	58	64	217	218
Total	722	608	655	835
Average length of patient stay				
Medicare acute and rehab care	4.5	3.4	3.2	2.9
Swingbed	6.9	6.9	4.5	5.0
Medicaid acute and rehab care	4.0	3.4	2.5	2.6
Other acute and rehab care	10.1	8.4	3.0	3.0
Average length of stay for acute care	4.9	3.9	3.1	2.9

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			
	2018	2017	2016	2015
Land and land improvements	\$ 657,500	\$ 657,500	\$ 657,500	\$ 657,500
Buildings	11,042,547	6,400,538	5,441,401	5,406,472
Fixed equipment	2,714,431	2,702,231	2,702,231	2,702,231
Major movable equipment	10,456,291	9,910,839	8,798,514	8,380,799
Subtotal	24,870,769	19,671,108	17,599,646	17,147,002
Less accumulated depreciation and amortization	15,277,403	14,226,007	13,402,417	12,628,806
Construction-in-progress	-0-	4,324,788	3,646,435	202,533
Land and depreciable capital assets, net	\$ 9,593,366	\$ 9,769,889	\$ 7,843,664	\$ 4,720,729

Long-Term Debt

Long-term debt at year end consists of two (2) revenue bonds and four (4) capital leases. During FY 2018, the Hospital made payments of \$362,753 to pay down revenue bonds and capital leases. Long-term debt increased by \$249,682 or 4.8% in 2018, as a result of addition to the revenue bond and three (3) new capital leases.

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.



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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, 2018, 2017, and 2016, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2018, 2017, and 2016, 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, 2018, 2017, and 2016, 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 audits were 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 25, 2018, 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 25, 2018



FRANKLIN MEDICAL CENTER
STATEMENTS OF NET POSITION
APRIL 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 1,338,684	\$ 657,990	\$ 572,857
Short-term investments (Note 3)	1,026,936	622,414	921,687
Accounts receivable, net of allowances for uncollectibles (Note 4)	2,539,700	2,338,603	2,789,395
Estimated third-party payor settlements	855,504	745,510	631,352
Other receivables	25,731	25,130	126,298
Inventories	728,112	567,047	466,917
Prepaid expenses	154,371	75,997	86,151
Total Current Assets	<u>6,669,038</u>	<u>5,032,691</u>	<u>5,594,657</u>
Non-Current Assets			
Land	657,500	657,500	657,500
Depreciable capital assets, net (Note 5 and 6)	8,935,866	9,112,389	7,186,164
Notes receivable	52,177	121,667	199,000
Physician practice acquisition	106,692	106,692	106,692
Limited use assets (Note 7)	816,375	812,635	810,194
Intangibles	999,670	1,239,591	1,011,340
Total Assets	<u>\$ 18,237,318</u>	<u>\$ 17,083,165</u>	<u>\$ 15,565,547</u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable	\$ 1,271,273	\$ 1,764,474	\$ 931,621
Accrued salary and payroll taxes	959,925	837,374	412,969
Accrued paid time off (Note 8)	507,694	652,599	704,606
Estimated third-party payor settlements	1,756,773	1,973,692	1,164,933
Current portion of long-term debt (Note 9)	428,143	343,564	244,600
Total Current Liabilities	<u>4,923,808</u>	<u>5,571,703</u>	<u>3,458,729</u>
Long-term debt, net of current maturities (Note 9)	<u>5,493,280</u>	<u>5,243,598</u>	<u>3,159,687</u>
Total Liabilities	<u>10,417,088</u>	<u>10,815,301</u>	<u>6,618,416</u>
Net Position			
Invested in capital assets, net of related debt	3,014,443	3,525,227	3,781,877
Restricted	200,490	200,490	200,490
Unrestricted	4,605,297	2,542,147	4,964,764
Total Net Position	<u>7,820,230</u>	<u>6,267,864</u>	<u>8,947,131</u>
Total Liabilities and Net Position	<u>\$ 18,237,318</u>	<u>\$ 17,083,165</u>	<u>\$ 15,565,547</u>

See accompanying notes to financial statements.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues			
Net patient service revenues (Note 10)	\$ 28,380,193	\$ 24,465,327	\$ 23,174,726
Non-restricted contributions	9,883	-0-	17,188
Operating grants	197,533	92,687	-0-
Intergovernmental transfer grants	2,584,519	1,286,123	1,808,499
Maintenance taxes	1,237,299	1,200,398	1,172,074
Other operating revenues	<u>752,432</u>	<u>284,645</u>	<u>209,799</u>
 Total Revenues	 <u>33,161,859</u>	 <u>27,329,180</u>	 <u>26,382,286</u>
Expenses			
Salaries	13,428,866	12,891,778	12,098,793
Benefits and payroll taxes	2,880,764	3,249,873	2,810,958
Supplies and drugs	2,307,115	1,847,920	1,760,425
Professional fees	5,420,085	4,983,027	5,115,397
Other expenses	5,509,694	5,306,657	3,832,365
Insurance	454,288	419,876	405,751
Depreciation and amortization	<u>1,402,824</u>	<u>1,130,007</u>	<u>1,098,786</u>
 Total Expenses	 <u>31,403,636</u>	 <u>29,829,138</u>	 <u>27,122,475</u>
 Operating Income (Loss)	 <u>1,758,223</u>	 <u>(2,499,958)</u>	 <u>(740,189)</u>
Nonoperating Revenues (Expenses)			
Noncapital grants	-0-	-0-	248,505
Gain (loss) on sale of assets	-0-	1,326	(4,080)
Interest income	13,014	11,497	22,054
Interest expense	<u>(218,871)</u>	<u>(192,132)</u>	<u>(103,812)</u>
 Changes in Net Position	 1,552,366	 (2,679,267)	 (577,522)
 Beginning Net Position	 <u>6,267,864</u>	 <u>8,947,131</u>	 <u>9,524,653</u>
 Ending Net Position	 \$ <u>7,820,230</u>	 \$ <u>6,267,864</u>	 \$ <u>8,947,131</u>

See accompanying notes to financial statements.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 27,852,183	\$ 25,610,720	\$ 24,151,996
Other receipts from operations	4,781,065	2,965,021	3,590,261
Cash payments to employees and for employee-related cost	(16,331,984)	(15,769,253)	(15,269,987)
Cash payments for other operating expenses	<u>(14,423,822)</u>	<u>(11,814,603)</u>	<u>(11,046,223)</u>
Net cash provided (used) by operating activities	<u>1,877,442</u>	<u>991,885</u>	<u>1,426,047</u>
Cash flows from investing activities:			
Purchase of certificates of deposit	(408,262)	(2,441)	(921,649)
Proceeds from certificates of deposit	-0-	299,273	916,979
Loan to physicians	(42,184)	(52,000)	(80,430)
Cash paid for software fees	-0-	(405,335)	(1,011,340)
Interest income	<u>13,014</u>	<u>11,497</u>	<u>9,263</u>
Net cash provided (used) by investing activities	<u>(437,432)</u>	<u>(149,006)</u>	<u>(1,087,177)</u>
Cash flows from financing activities:			
Proceeds from noncapital grants	<u>-0-</u>	<u>-0-</u>	<u>248,505</u>
Net cash provided (used) by financing activities	<u>-0-</u>	<u>-0-</u>	<u>248,505</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(582,184)	(2,606,857)	(3,910,553)
Interest expense	(218,871)	(192,132)	(103,812)
Proceeds from sales of capital assets	-0-	1,820	2,134
Proceeds from revenue bonds	404,492	3,565,909	3,246,043
Principal payments on long-term debt	<u>(362,753)</u>	<u>(1,526,486)</u>	<u>(978,849)</u>
Net cash provided (used) by capital and related financing activities	<u>(759,316)</u>	<u>(757,746)</u>	<u>(1,745,037)</u>
Net increase (decrease) in cash and cash equivalents	680,694	85,133	(1,157,662)
Beginning cash and cash equivalents	<u>657,990</u>	<u>572,857</u>	<u>1,730,519</u>
Ending cash and cash equivalents	<u>\$ 1,338,684</u>	<u>\$ 657,990</u>	<u>\$ 572,857</u>

See accompanying notes to financial statements.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>218,871</u>	\$ <u>184,502</u>	\$ <u>85,582</u>
Equipment acquired through capital lease agreements	\$ <u>292,522</u>	\$ <u>143,452</u>	\$ <u>-0-</u>
Reconciliation of income from operations to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,758,223	\$ (2,499,958)	\$ (740,189)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,402,824	1,130,007	1,098,786
Provision for bad debts	2,262,937	5,473,388	5,005,181
Changes in current assets (increase) decrease:			
Accounts receivable	(2,464,034)	(5,022,596)	(5,101,186)
Estimated third-party payor settlements	(109,994)	(114,158)	138,276
Other receivables	(601)	101,168	379,818
Inventories	(161,065)	(100,130)	15,553
Prepaid expenses	(78,374)	10,154	24,992
Changes in current liabilities increase (decrease):			
Accounts payable	(493,201)	832,853	33,033
Accrued salary and payroll taxes	122,551	424,405	(366,098)
Accrued paid time off	(144,905)	(52,007)	-0-
Estimated third-party payor settlements	<u>(216,919)</u>	<u>808,759</u>	<u>937,881</u>
Net cash provided (used) by operating activities	\$ <u>1,877,442</u>	\$ <u>991,885</u>	\$ <u>1,426,047</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

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 four 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, 2018, 2017 AND 2016

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, 2018, 2017 AND 2016

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, 2018, 2017 AND 2016

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, 2018, 2017, and 2016.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

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, 2018, for the Hospital are as follows:

	Franklin State Bank	Winnsboro State Bank	Progressive Bank
Cash in banks	\$ <u>2,859,245</u>	\$ <u>29,857</u>	\$ <u>676,172</u>
Insured by FDIC	\$ <u>500,000</u>	\$ <u>29,857</u>	\$ <u>250,000</u>
Collateralization by fair market value	\$ <u>2,359,245</u>	\$ <u>-0-</u>	\$ <u>426,172</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>2018</u>	<u>2017</u>	<u>2016</u>
Carrying amount			
Deposits	\$ 510,732	\$ 356,453	\$ 272,029
Investments	<u>2,671,263</u>	<u>1,736,586</u>	<u>2,032,709</u>
	<u>\$ 3,181,995</u>	<u>\$ 2,093,039</u>	<u>\$ 2,304,738</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 1,338,684	\$ 657,990	\$ 572,857
Short-term investments	1,026,936	622,414	921,687
Assets whose use is limited	<u>816,375</u>	<u>812,635</u>	<u>810,194</u>
	<u>\$ 3,181,995</u>	<u>\$ 2,093,039</u>	<u>\$ 2,304,738</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Patients	\$ 14,451,452	\$ 20,784,903	\$ 22,133,574
Estimated allowances for uncollectibles	<u>(11,911,752)</u>	<u>(18,446,300)</u>	<u>(19,344,179)</u>
Net accounts receivable	\$ <u>2,539,700</u>	\$ <u>2,338,603</u>	\$ <u>2,789,395</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare	5%	3%	2%
Medicaid	7%	4%	4%
Commercial and other third-party payors	3%	3%	5%
Patients	<u>85%</u>	<u>90%</u>	<u>89%</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>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>2018</u>
Buildings	\$ 6,400,538	\$ 4,642,009	\$ -0-	\$ 11,042,547
Leasehold improvements	2,702,231	12,200	-0-	2,714,431
Furniture and equipment	9,910,839	545,452	-0-	10,456,291
Construction in progress	<u>4,324,788</u>	<u>-0-</u>	<u>4,324,788</u>	<u>-0-</u>
Total	23,338,396	5,199,661	4,324,788	24,213,269
Accumulated depreciation	<u>14,226,007</u>	<u>1,051,396</u>	<u>-0-</u>	<u>15,277,403</u>
Net	\$ <u>9,112,389</u>	\$ <u>4,148,265</u>	\$ <u>4,324,788</u>	\$ <u>8,935,866</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>2017</u>
Buildings	\$ 5,441,401	\$ 959,137	\$ -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	 20,588,581	 4,102,842	 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>\$ 7,186,164</u>	 <u>\$ 3,279,252</u>	 <u>\$ 1,353,027</u>	 <u>\$ 9,112,389</u>
	 <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>

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, 2018, 2017 AND 2016

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)

Cost or Fair Market Value on the Date of Donation	<u>2018</u>	<u>2017</u>	<u>2016</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>2018</u>	<u>2017</u>	<u>2016</u>
<u>By Third Parties</u>			
LHA Trust deposits	\$ 200,490	\$ 200,490	\$ 200,490
<u>By Board</u>			
For capital improvements	<u>615,885</u>	<u>612,145</u>	<u>609,704</u>
	\$ <u>816,375</u>	\$ <u>812,635</u>	\$ <u>810,194</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

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 \$507,694, \$652,599 and \$704,606 of vacation pay at April 30, 2018, 2017 and 2016. 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>2017</u>	<u>Additions</u>	<u>Payments</u>	<u>2018</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ 123,089	\$ 292,522	\$ 50,505	\$ 365,106	\$ 111,343
Revenue bonds, Series 2014	3,402,167	-0-	200,000	3,202,167	200,000
Revenue bonds, Series 2015	<u>2,061,906</u>	<u>404,492</u>	<u>112,248</u>	<u>2,354,150</u>	<u>116,800</u>
Total	\$ <u>5,587,162</u>	\$ <u>697,014</u>	\$ <u>362,753</u>	\$ <u>5,921,423</u>	\$ <u>428,143</u>
	<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>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 9 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at April 30, 2018:

- \$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, 2018, \$2,574,271 has been used of the total bond allowance, leaving \$425,729 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.
- EverBank capital lease for X-Ray equipment 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 \$102,466 at April 30, 2018.
- Stryker Flex Finance capital lease for Orthopedic equipment at rate of imputed interest of 2.3%, with 60 monthly payments of \$1,731 until September 2022, collateralized by leased equipment with a cost of \$98,020 and a book value of \$86,585 at April 30, 2018.
- Stryker Flex Equipment capital lease for Orthopedic equipment at rate of imputed interest of 3.584%, with 60 monthly payments of \$1,535 until September 2022, collateralized by leased equipment with a cost of \$84,183 and a book value of \$72,959 at April 30, 2018.
- Given Imaging capital lease for Gastrointestinal equipment at rate of imputed interest of 8.23%, with 6 monthly payments of \$1,103 followed by 48 monthly payments of \$2,616 until November 2021, collateralized by leased equipment with a cost of \$110,319 and a book value of \$105,837 at April 30, 2018.

<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>
2019	\$ 316,800	\$ 203,888	\$ 111,343	\$ 13,928
2020	321,241	192,333	97,342	9,717
2021	326,454	180,604	84,263	5,284
2022	331,582	168,673	55,949	1,565
2023	336,919	156,541	16,209	118
2024-2028	1,772,079	593,182	-0-	-0-
2029-2033	1,942,217	254,873	-0-	-0-
2034-2035	209,025	7,343	-0-	-0-
Totals	\$ <u>5,556,317</u>	\$ <u>1,757,437</u>	\$ <u>365,106</u>	\$ <u>30,612</u>

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

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

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-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2022, if not extended by Congress. The additional payment received under the Medicare low volume add-on was \$489,664, \$452,826, and \$428,322 for the years ended April 30, 2018, 2017 and 2016, respectively. Because the Hospital qualifies as a Medicare Dependent Hospital (MDH), it receives additional reimbursement. The additional payments received under MDH status were \$65,912, \$155,213, and \$172,621 for the years ended April 30, 2018, 2017 and 2016, respectively. The benefits related to MDH designation expire on September 30, 2022. 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 9.1%, 9.9%, and 10.3% of the total gross charges for the years ended April 30, 2018, 2017 and 2016, respectively.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Gross charges	\$ 82,033,707	\$ 75,066,188	\$ 74,229,851
Less charges associated with charity patients	<u>395,732</u>	<u>3,048,734</u>	<u>1,843,514</u>
Gross patient service revenues	81,637,975	72,017,454	72,386,337
Less deductions from revenue:			
Contractual adjustments	51,408,149	42,428,707	44,198,505
Policy and other discounts	(8,746)	117,391	7,925
Physician supplement revenue	<u>(404,558)</u>	<u>(467,359)</u>	<u>-0-</u>
Patient service revenue (net of contractual adjustments and discounts)	30,643,130	29,938,715	28,179,907
Less provision for bad debts	<u>(2,262,937)</u>	<u>(5,473,388)</u>	<u>(5,005,181)</u>
Net patient service revenue less provision for bad debts	\$ <u>28,380,193</u>	\$ <u>24,465,327</u>	\$ <u>23,174,726</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare and Medicaid patient charges	\$ 60,673,509	\$ 52,597,312	\$ 46,867,763
Contractual adjustments	<u>(38,735,552)</u>	<u>(31,012,726)</u>	<u>(32,189,491)</u>
Program patient service revenue	\$ <u>21,937,957</u>	\$ <u>21,584,586</u>	\$ <u>14,678,272</u>
Percent of total gross patient charges	<u>74%</u>	<u>70%</u>	<u>63%</u>
Percent of total net patient revenues	<u>77%</u>	<u>88%</u>	<u>63%</u>

The Hospital experienced differences between the amounts initially recorded on its cost report 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.

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

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 11 - PROFESSIONAL LIABILITY RISK (Continued)

the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

NOTE 12 - CONTINGENCIES

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

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

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

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, 2018, 2017 AND 2016

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 \$2,352,277 per plan year. There were no significant changes in insurance coverage from the prior year. 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>2018</u>	<u>2017</u>	<u>2016</u>
Beginning of the year	\$ 595,143	\$ 275,073	\$ 248,990
Plus: Claims incurred and changes in estimate	1,631,940	2,021,568	1,671,764
Less: Claims paid	<u>1,559,146</u>	<u>1,701,498</u>	<u>1,645,681</u>
End of the year	\$ <u>667,937</u>	\$ <u>595,143</u>	\$ <u>275,073</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, 2018, 2017 and 2016 were \$194,729, \$177,984, and \$190,364. The employees of the District contributed \$401,716, \$378,645, and \$302,329 for the years ended April 30, 2018, 2017 and 2016, respectively.

NOTE 15 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2018:

Paul Price Jr.
Greg Kincaid
Nick Poulos
Dr. Jan Hicks
Jessi Young

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 2023. Future minimum lease payments are as follows:

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 16 - OPERATING LEASES (Continued)

<u>Year Ending April 30,</u>	<u>Amount</u>
2019	\$ 383,148
2020	383,148
2021	383,148
2022	383,148
2023	<u>383,148</u>
Total minimum lease payments	<u>\$ 1,915,740</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 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 \$2,584,519, \$1,286,123 and \$1,808,499 for fiscal years 2018, 2017 and 2016, respectively.

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

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 \$152,000, \$1,219,000, and \$861,000 for the years ended April 30, 2018, 2017 and 2016, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$1,040,000, \$594,000, and \$107,000 for the years ended April 30, 2018, 2017 and 2016, 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.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2018, 2017 AND 2016

NOTE 20 - COMMITMENTS

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

<u>Year Ending April 30,</u>	<u>Amount</u>
2019	\$ 726,476
2020	726,476
2021	726,476
2022	479,516
2023	<u>-0-</u>
Total future commitment payments	\$ <u>2,658,944</u>

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

Events have been evaluated through October 25, 2018, 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>2018</u>	<u>2017</u>	<u>2016</u>
Routine Services:			
Adults and pediatric	\$ 1,776,083	\$ 1,708,311	\$ 1,269,725
Intensive care unit	78,000	214,231	203,550
Rehab unit	1,075,135	-0-	-0-
Swing bed	<u>316,800</u>	<u>109,621</u>	<u>79,950</u>
 Total	 <u>3,246,018</u>	 <u>2,032,163</u>	 <u>1,553,225</u>
Other Professional Services:			
Operating room			
Inpatient	145,129	249,793	321,222
Outpatient	<u>3,581,585</u>	<u>3,269,488</u>	<u>5,490,035</u>
 Total	 <u>3,726,714</u>	 <u>3,519,281</u>	 <u>5,811,257</u>
Recovery room			
Inpatient	13,050	14,025	15,375
Outpatient	<u>321,450</u>	<u>312,000</u>	<u>244,950</u>
 Total	 <u>334,500</u>	 <u>326,025</u>	 <u>260,325</u>
Anesthesia			
Inpatient	1,180	8,191	44,809
Outpatient	<u>23,560</u>	<u>184,026</u>	<u>674,765</u>
 Total	 <u>24,740</u>	 <u>192,217</u>	 <u>719,574</u>
Radiology			
Inpatient	980,205	1,017,238	881,210
Outpatient	<u>13,171,055</u>	<u>13,012,126</u>	<u>12,727,549</u>
 Total	 <u>14,151,260</u>	 <u>14,029,364</u>	 <u>13,608,759</u>
Laboratory			
Inpatient	761,129	706,189	578,546
Outpatient	<u>8,432,025</u>	<u>7,044,959</u>	<u>6,604,001</u>
 Total	 <u>\$ 9,193,154</u>	 <u>\$ 7,751,148</u>	 <u>\$ 7,182,547</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Blood			
Inpatient	\$ 165,106	\$ 144,384	\$ 113,371
Outpatient	<u>326,978</u>	<u>374,758</u>	<u>287,226</u>
Total	<u>492,084</u>	<u>519,142</u>	<u>400,597</u>
Respiratory care			
Inpatient	2,688,926	2,215,591	2,335,520
Outpatient	<u>2,165,177</u>	<u>1,921,747</u>	<u>2,089,818</u>
Total	<u>4,854,103</u>	<u>4,137,338</u>	<u>4,425,338</u>
Physical therapy			
Inpatient	825,840	37,539	132,847
Outpatient	<u>34,052</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>859,892</u>	<u>37,539</u>	<u>132,847</u>
EKG			
Inpatient	98,135	106,720	90,116
Outpatient	<u>662,220</u>	<u>641,714</u>	<u>615,986</u>
Total	<u>760,355</u>	<u>748,434</u>	<u>706,102</u>
Central supply			
Inpatient	368,053	337,407	330,198
Outpatient	<u>2,409,049</u>	<u>1,997,014</u>	<u>1,480,292</u>
Total	<u>2,777,102</u>	<u>2,334,421</u>	<u>1,810,490</u>
Pharmacy			
Inpatient	2,449,418	1,818,917	1,631,155
Outpatient	<u>7,600,584</u>	<u>5,138,346</u>	<u>6,883,101</u>
Total	<u>10,050,002</u>	<u>6,957,263</u>	<u>8,514,256</u>
Intensive outpatient program	<u>1,821,438</u>	<u>1,775,501</u>	<u>2,042,309</u>
Emergency room			
Inpatient	1,007,846	1,125,884	991,159
Outpatient	<u>13,346,828</u>	<u>14,775,090</u>	<u>12,444,327</u>
Total	<u>\$ 14,354,674</u>	<u>\$ 15,900,974</u>	<u>\$ 13,435,486</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Observation room			
Inpatient	\$ 48,943	\$ 74,352	\$ (1,550)
Outpatient	<u>1,242,637</u>	<u>1,443,414</u>	<u>2,234,784</u>
Total	<u>1,291,580</u>	<u>1,517,766</u>	<u>2,233,234</u>
Rural health clinic - outpatient	<u>10,960,158</u>	<u>10,415,586</u>	<u>8,239,501</u>
Ambulance - outpatient	<u>25,936</u>	<u>24,633</u>	<u>2,514</u>
Wound care - outpatient	<u>63,171</u>	<u>-0-</u>	<u>1,648</u>
Orthopedic clinic - outpatient	<u>23,921</u>	<u>-0-</u>	<u>-0-</u>
Nurse family partnership - outpatient	<u>431,012</u>	<u>296,346</u>	<u>438,549</u>
Urology clinic	<u>1,614,120</u>	<u>1,527,851</u>	<u>1,729,639</u>
Private physician office - outpatient	<u>977,773</u>	<u>1,023,196</u>	<u>981,654</u>
Total Other Professional Services	<u>78,787,689</u>	<u>73,034,025</u>	<u>72,676,626</u>
Gross charges	<u>82,033,707</u>	<u>75,066,188</u>	<u>74,229,851</u>
Less charges associated with charity patients	<u>(395,732)</u>	<u>(3,048,734)</u>	<u>(1,843,514)</u>
Gross patient service revenue	81,637,975	72,017,454	72,386,337
Less deductions from revenue:			
Contractual adjustments	51,408,149	42,428,707	44,198,505
Policy and other discounts	(8,746)	117,391	7,925
Physician supplement revenue	<u>(404,558)</u>	<u>(467,359)</u>	<u>-0-</u>
Patient service revenue (net of contractual adjustments and discounts)	<u>30,643,130</u>	<u>29,938,715</u>	<u>28,179,907</u>
Less provision for bad debts	<u>(2,262,937)</u>	<u>(5,473,388)</u>	<u>(5,005,181)</u>
Net Patient Service Revenue	\$ <u>28,380,193</u>	\$ <u>24,465,327</u>	\$ <u>23,174,726</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cafeteria sales	\$ -0-	\$ -0-	\$ 665
Vending machine commission	4,304	3,468	2,516
Physician office rentals	28,068	57,490	13,550
Medical records abstract fees	21,732	22,874	19,004
340B pharmacy program	547,361	4,468	-0-
Miscellaneous revenue	<u>150,967</u>	<u>196,345</u>	<u>174,064</u>
 Total other operating revenues	 \$ <u><u>752,432</u></u>	 \$ <u><u>284,645</u></u>	 \$ <u><u>209,799</u></u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Personnel	\$ 100,149	\$ 96,765	\$ 91,417
Administration	1,457,931	1,441,300	1,451,718
Plant operations and maintenance	212,509	220,080	213,892
Housekeeping	-0-	41,035	164,381
Purchasing	71,501	71,754	72,862
Pharmacy	356,883	381,345	372,149
Nursing administration	334,702	370,590	367,684
Medical records	259,077	319,088	325,752
Nursing services, acute care	1,570,360	1,606,149	1,456,458
Nursing services, intensive care unit	89,067	189,247	257,706
Nursing services, rehab unit	442,315	16,431	-0-
Operating room	441,106	396,890	270,688
Radiology	558,379	517,314	515,145
Laboratory	658,791	620,373	574,527
Respiratory care	552,770	533,818	519,188
Intensive outpatient program	350,274	256,482	300,778
Wound care	2,821	-0-	-0-
Orthopedic clinic	1,775	-0-	-0-
Emergency room	1,355,836	1,300,990	1,102,593
Rural health clinic	2,656,362	2,520,704	2,225,017
Nurse family partnership	316,897	236,562	264,348
Spa	698	1,238	16,351
Transportation	94,841	89,903	82,751
Urology clinic	753,793	775,085	746,650
Private physician office	790,029	888,635	706,738
	<u>13,428,866</u>	<u>12,891,778</u>	<u>12,098,793</u>
Total salaries			
Payroll taxes	912,259	892,325	814,093
Health insurance	1,631,940	2,024,728	1,673,616
Pension plan	194,729	177,984	190,364
Other	141,836	154,836	132,885
	<u>2,880,764</u>	<u>3,249,873</u>	<u>2,810,958</u>
Total benefits			
Total salaries and benefits	\$ <u>16,309,630</u>	\$ <u>16,141,651</u>	\$ <u>14,909,751</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Nursing service	\$ 20,599	\$ 1,862	\$ 1,710
Intensive care unit	-0-	-0-	70,000
Rehab unit	14,716	-0-	-0-
Operating room	11,939	5,319	294
Anesthesiology	81,668	154,572	280,000
Radiology	561,067	585,024	694,405
Laboratory	401,187	346,157	279,710
Respiratory therapy	120,900	84,456	63,674
Physical therapy	293,635	5,385	9,480
EKG	36,120	33,183	34,053
IOP	588	2,404	196
Pharmacy	65,188	64,209	3,216
Orthopedic clinic	134,327	-0-	-0-
Emergency room	712,442	746,145	848,888
Rural health clinic	2,960,299	2,943,553	2,688,656
Urology clinic	2,486	6,615	138,714
Private physician office	<u>2,924</u>	<u>4,143</u>	<u>2,401</u>
 Total professional fees	 \$ <u>5,420,085</u>	 \$ <u>4,983,027</u>	 \$ <u>5,115,397</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Miscellaneous service fees	\$ 2,777,347	\$ 2,609,230	\$ 1,904,063
Legal and accounting	93,662	160,900	86,192
Supplies	189,502	184,348	258,100
Minor equipment	57,766	74,367	37,057
Repairs and maintenance	81,063	145,820	88,427
Utilities	431,720	396,469	402,881
Telephone	55,522	70,508	57,467
Travel	49,682	54,551	50,001
Rentals	366,134	387,241	435,231
Education	38,755	29,385	18,700
Dues and subscriptions	1,018,639	924,175	326,723
Recruitment and advertising	86,337	38,217	56,317
Miscellaneous	<u>263,565</u>	<u>231,446</u>	<u>111,206</u>
 Total other expenses	 \$ <u>5,509,694</u>	 \$ <u>5,306,657</u>	 \$ <u>3,832,365</u>

FRANKLIN MEDICAL CENTER
 SCHEDULE OF COMPENSATION, BENEFITS AND OTHER
 PAYMENTS TO ADMINISTRATOR
 YEAR ENDED APRIL 30, 2018

Agency Head Name: Blake Kramer
 Position: Administrator
 Time Period: May 1, 2017 to April 30, 2018

Purpose	Amount
Salary	193,883
Health insurance	6,156
Retirement	7,416
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	-0-
Travel	1,255
Registration fees	360
Conference travel	2,733
Continuing professional education fees	-0-
Housing	-0-
Unvouchered expenses	-0-
Special meals	-0-
Professional dues	1,640
Cell phone	415



LESTER, MILLER & WELLS

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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, 2018, 2017, and 2016, 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 25, 2018.

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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2018-02.

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

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2018-01 and 2018-03.

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 25, 2018



FRANKLIN MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – Yes
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2018-01 – 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 2018-02 – Medicaid Cost Reimbursement

Finding: Management implemented a model for estimating Medicare and Medicaid cost reimbursement during the current fiscal year. However, the model did not include the implementation of new services and included additional reserves. This caused the liabilities to be overstated and net patient service revenue was understated by approximately \$1,800,000.



FRANKLIN MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section II. Financial Statement Findings (Continued)

Finding 2018-02 – Medicaid Cost Reimbursement (Continued)

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: The model management used to estimate cost report settlements was not accurate, partly due to implementation of new services during the fiscal year. The Chief Financial Officer has updated the information used in the model to more accurately reflect the current hospital operations.

Finding 2018-03 – 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 the 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.

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, 2018

Section I. Financial Statement Findings

Finding 2017-01 – 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 2018-01.

Finding 2017-02 – 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 \$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.

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 2018-02.



FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section I. Financial Statement Findings (Continued)

Finding 2017-03 – 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: 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.

Resolution: Partially resolved. There has been significant improvement in the credit balances, but the amount remains too high. See Finding 2018-03.

Finding 2017-04 – 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 \$284,528, 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 been resolved.



FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section I. Financial Statement Findings (Continued)

Finding 2017-05 – 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 \$129,000, 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 been resolved.

Finding 2017-06 – Operating Leases

Fiscal Year Initially Reported: April 30, 2016

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.

Resolution: This matter has been resolved.

Finding 2017-07 – 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



FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section I. Financial Statement Findings (Continued)

Finding 2017-07 – Service Organization Control Report (Continued)

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.

Resolution: This matter has been resolved.

Finding 2017-08 – Bank Reconciliations

Fiscal Year Initially Reported: April 30, 2017

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.

Resolution: This matter has been resolved.

Finding 2017-09 – Accounts Payable

Fiscal Year Initially Reported: April 30, 2017

Finding: Management held some invoices that were initially in dispute and therefore were not recorded in the accounts payable system. Liabilities and expenses 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 of 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 directors meeting.

Resolution: This matter has been resolved.



FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2018

Section I. Financial Statement Findings (Continued)

Finding 2017-10 – Retirement Contributions

Fiscal Year Initially Reported: April 30, 2017

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.

Resolution: This matter has been resolved.

Finding 2017-11 – Self-Insured Health Insurance

Finding: Management did not make an estimate for claims incurred but not 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 end of the third quarter.

Resolution: This matter has been resolved.

Section II. Federal Award Findings and Questioned Costs

Not Applicable

Section III. Management Letter

Not Applicable

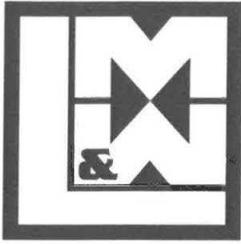


FRANKLIN MEDICAL CENTER
INDEPENDENT AUDITORS' REPORT
ON APPLYING AGREED UPON
PROCEDURES

FOR THE YEAR ENDED
APRIL 30, 2018



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS



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Members: Association of International Certified Professional Accountants • Society of Louisiana Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
d/b/a Franklin Medical Center
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Board of Commissioners of Franklin Parish Hospital Service District No. 1 d/b/a Franklin Medical Center (Hospital) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period May 1, 2017 through April 30, 2018. The Hospital's management is responsible for those C/C areas identified in the SAUPs.

The agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose of which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
d/b/a Franklin Medical Center
and the Louisiana Legislative Auditor

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Exceptions: The policy for credit cards states that credit card statements should be reviewed, but does not mention the required approvers.

The policy for receipts/collections defines neither procedures for preparing deposits nor a description of actions taken by management to ensure the completeness of all collections.

The policy for ethics does not discuss a system to monitor ethics violations. Also, the policy does not mention the requirement that all employees attest through signature verification that they have read the entity's ethics policy.

Management's Response: The written policies and procedures have been updated to address the above exceptions.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Exceptions: No exceptions noted in applying the above procedures.



To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
d/b/a Franklin Medical Center
and the Louisiana Legislative Auditor

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Exceptions: There was no documentation that management researched reconciling items that were outstanding for over twelve months. There was no evidence that management or board members reviewed bank reconciliations.

Management's Response: Management has implemented a monthly review of bank reconciliations.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees that are responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.



To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
d/b/a Franklin Medical Center
and the Louisiana Legislative Auditor

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
- Observe that receipts are sequentially pre-numbered.
 - Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - Trace the deposit slip total to the actual deposit per the bank statement.
 - Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
 - Trace the actual deposit per the bank statement to the general ledger.

Exceptions: Deposits chosen for General Fund were made two (2) days after business receipt instead of one (1). Per inquiry, the same employee is responsible for collecting cash, preparing the deposits, posting the deposit, and reconciling cash collections.

Management's Response: Management has implemented policies to insure deposits will be made timely. Additionally, management has segregated the duties for deposits.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
- At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - At least two employees are involved in processing and approving payments to vendors.
 - The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
- Observe that the disbursement matched the related original invoice/billing statement.



To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
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- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Exceptions: No exceptions noted in applying the above procedures.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Exceptions: Of the twenty-one (21) transactions tested, sixteen (16) did not have a business purpose for the transaction. There was no evidence that the monthly statements for the five (5) cards tested were reviewed and approved.

Management's Response: All invoices are currently being reviewed and approved. Additionally, the business purpose is being documented.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
 - a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).



To the Board of Commissioners
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- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Exceptions: Three out of the five tested had no evidence that their reimbursements were reviewed and approved in writing.

Management's Response: The Hospital has an agreement with a State agency whereby the Hospital's employees provide services that are reimbursed by the State. Travel expense reimbursements are submitted to the Head of the Budget Unit who approves and forwards to the Hospital for payment. The expenses are reimbursed per the State's travel reimbursement policy and not the Hospital's travel reimbursement policy. Management has accepted the approval from the Head of the Budget Unit.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
 - c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.
 - d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Exception: No exceptions noted in applying the above procedures.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:



To the Board of Commissioners
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- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Exceptions: No exceptions noted in applying the above procedures.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:
- a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Exceptions: Employees did not have documentation of completed one hour ethics training course for the fiscal year. Employees started signing ethics policy document after fiscal year end.

Management's Response: This procedure was already in place, but was not followed consistently. Human Resources tracks employee compliance with annual requirements. The Human Resources director was filled by multiple people during the fiscal year. As a result, some annual requirements were missed. The Hospital has a procedure in place to routinely monitor compliance with annual personnel requirements.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.



To the Board of Commissioners
of Franklin Parish Hospital Service District No. 1
d/b/a Franklin Medical Center
and the Louisiana Legislative Auditor

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Exceptions: No exceptions noted in applying the above procedures.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds

Exceptions: No exceptions noted in applying the above procedures.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

October 25, 2018

