

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1 PARISH OF ST. MARY
d/b/a FRANKLIN FOUNDATION HOSPITAL
FRANKLIN, LOUISIANA

SEPTEMBER 30, 2017 AND 2016

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1 PARISH OF ST. MARY
d/b/a FRANKLIN FOUNDATION HOSPITAL
FRANKLIN, LOUISIANA

SEPTEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1 Parish of St. Mary
State of Louisiana
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statements of net position of Hospital Service District No. 1 Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, d/b/a Franklin Foundation Hospital ("the Hospital"), as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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.

OPINIONS

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 St. Mary, State of Louisiana as of September 30, 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.

OTHER MATTERS

Required Supplementary Information

The Hospital has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules identified in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Accounting Standards*, we have also issued our report dated February 22, 2018 on our consideration of the Hospital's internal control over financial reporting and on 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.



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 22, 2018

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30,

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,072,615	\$ 1,696,050
Investments	4,101,748	4,090,289
Accounts Receivables, less Allowance For Doubtful accounts of \$951,981 in 2017 and \$1,675,602 in 2016	1,807,782	1,583,138
Due from Third Party Payors	1,060,418	1,487,432
Other Receivables	2,865,372	1,959,315
Inventories	752,313	752,299
Prepaid Expenses	549,165	496,074
Total Current Assets	13,209,413	12,064,597
 ASSETS WHOSE USE IS LIMITED:		
By Board	7,016,117	5,346,794
By Bond Indenture		
Series 2005 Contingency Fund	134,411	120,889
Series 2005 Reserve Fund	134,413	120,890
Series 2010 Contingency Fund	189,123	163,355
Series 2010 Bond Reserve Fund	189,123	163,355
Total Assets Whose Use is Limited by Bond Indenture	647,070	568,489
Total Assets Whose Use is Limited	7,663,187	5,915,283
 PROPERTY, PLANT AND EQUIPMENT:		
Property, Plant and Equipment Cost	35,588,326	34,571,750
Less: Accumulated Depreciation	(23,368,032)	(21,908,304)
Total Property, Plant and Equipment	12,220,294	12,663,446
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Financing Costs	30,399	33,335
Total Deferred Outflows of Resources	30,399	33,335
 TOTAL ASSETS	 \$ 33,123,293	 \$ 30,676,661

The accompanying notes are an integral part of these financial statements.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30,

LIABILITIES AND NET POSITION

	2017	2016
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 525,263	\$ 488,385
Accounts Payable	738,699	461,438
Due to Third Party Payors	574,395	538,739
Credit Balances	48,043	83,005
Interest Payable	12,062	12,319
Accrued Salaries and Related Withholdings	814,499	647,754
Accrued Vacation and Holiday Expense	429,519	469,856
	3,142,480	2,701,496
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Revenue Bonds Series 2005	3,995,941	4,086,807
Revenue Refunding Bonds Series 2010	1,375,192	1,873,601
Capital Lease Payable	70,774	-
	5,441,907	5,960,408
TOTAL LONG-TERM LIABILITIES		
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue	158,163	-
	158,163	-
TOTAL DEFERRED INFLOWS OF RESOURCES		
TOTAL LIABILITIES		
	8,742,550	8,661,904
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	6,253,124	6,214,653
Restricted Net Position (Expendable)	7,663,187	5,915,283
Unrestricted	10,464,432	9,884,821
	24,380,743	22,014,757
TOTAL NET POSITION		
TOTAL LIABILITIES AND NET POSITION		
	\$ 33,123,293	\$ 30,676,661

The accompanying notes are an integral part of these financial statements.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEARS ENDED SEPTEMBER 30.

	2017	2016
OPERATING REVENUES:		
Net Patient Service Revenue before Provision for Doubtful Accounts	\$ 20,249,080	\$ 21,170,465
Provision for Doubtful Accounts	(1,426,856)	(2,990,462)
Net Patient Service Revenue less Provision for Doubtful Accounts	18,822,224	18,180,003
Ad Valorem Taxes	2,268,824	2,402,698
Intergovernmental Transfers - Operating Grant	3,468,548	2,656,847
Other Operating Revenue	425,635	336,837
TOTAL OPERATING REVENUE	24,985,231	23,576,385
OPERATING EXPENSES:		
Professional Services	13,668,230	13,171,238
General and Administrative	9,731,853	9,894,924
Depreciation and Amortization	1,459,728	1,532,397
TOTAL OPERATING EXPENSES	24,859,811	24,598,559
NET INCOME (LOSS) FROM OPERATIONS	125,420	(1,022,174)
NON-OPERATING REVENUES (EXPENSES)		
Full Medicaid Payment Program Funding	2,441,444	2,486,800
Grant Revenue	38,816	252,111
Net Decrease in the Fair Value of Investments	(73,328)	(20,017)
Investment Income	98,809	86,681
Loss on the Sale of Fixed Assets	-	(42,432)
Interest Income	7,111	7,219
Interest Expense	(272,609)	(296,718)
Other Non-Operating Revenue	323	160
TOTAL NON-OPERATING REVENUES (EXPENSES)	2,240,566	2,473,804
CHANGE IN NET POSITION	2,365,986	1,451,630
TOTAL NET POSITION, BEGINNING	22,014,757	20,563,127
TOTAL NET POSITION, ENDING	\$ 24,380,743	\$ 22,014,757

The accompanying notes are an integral part of these financial statements.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients	\$ 18,398,535	\$ 17,426,174
Ad Valorem Taxes	2,339,070	2,452,579
Intergovernmental Transfers-Operating Grant	3,340,449	3,085,876
Cash Received from Other Sources	204,185	134,686
Cash Payments to Suppliers for Goods and Services	(11,537,613)	(11,954,135)
Cash Payments to Employees for Services	(11,332,299)	(10,951,315)
Net Cash Provided By Operating Activities	<u>1,412,327</u>	<u>193,865</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:		
Acquisition of Property and Equipment	(1,016,577)	(456,338)
Principal Payments on Long-term Debt	(481,622)	(570,522)
Interest Payments on Long-term Debt	(272,867)	(297,951)
Proceeds from Capital Lease	119,969	-
Grant Income	2,480,260	3,312,600
Other Non-Operating Income	<u>323</u>	<u>160</u>
Net Cash Provided By Capital and Related Financial Activities	<u>829,486</u>	<u>1,987,949</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Deferred Financing Costs	<u>2,936</u>	<u>2,936</u>
Net Cash Provided By Non-Capital Financing Activities	<u>2,936</u>	<u>2,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(1,845,165)	(4,145,659)
Proceeds from the Sale of Investments	1,692,293	4,052,544
Investment Income	98,809	86,681
Net Decrease in the Fair Value of Investments	(73,328)	(20,017)
Interest Income	7,111	7,219
Loss on Sale of Assets	<u>-</u>	<u>42,432</u>
Net Cash (Used In) Provided By Investing Activities	<u>(120,280)</u>	<u>23,200</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,124,469	2,207,950
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, INCLUDING \$5,915,283 AND \$3,678,065 LIMITED AS TO USE FOR 2017 AND 2016, RESPECTIVELY	<u>7,611,333</u>	<u>5,403,383</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING \$7,663,187 AND \$5,915,283 LIMITED AS TO USE FOR 2017 AND 2016, RESPECTIVELY	<u>\$ 9,735,802</u>	<u>\$ 7,611,333</u>

The accompanying notes are an integral part of these financial statements.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 125,420	\$ (1,022,174)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,459,728	1,532,397
Provision for Doubtful Accounts	1,426,856	2,990,462
Increase in Receivables and Due from/to Third Parties	(2,108,405)	(3,467,532)
(Increase) Decrease in Inventories and Prepaid Expenses	(53,105)	120,478
Increase in Accounts Payable and Accrued Expenses	403,670	40,234
Increase in Deferred Revenue	158,163	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 1,412,327	\$ 193,865

The accompanying notes are an integral part of these financial statements.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Hospital Service District No. 1, Parish of St. Mary d/b/a Franklin Foundation Hospital (the Hospital) was created by Ordinance No. 559 of the Police Jury of St. Mary Parish on September 20, 1950, to operate, control, and manage matters concerning the health care of citizens west and northwest of the Wax Lake Outlet. The Hospital is governed by a board of seven commissioners who are appointed by the St. Mary Parish Council. For this reason, the Hospital is considered to be a component unit of the St. Mary Parish Government, St. Mary Parish, Louisiana.

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

Proprietary fund accounting. The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized using the economic resources measurement focus and the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Inventories. Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds, if any, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Uses of restricted funds are determined by board resolution only.

Compensated Absences. Employees of the Hospital are entitled to paid time off depending on their length of service and other factors. Accrued compensated absences on the Hospital's Statement of Net Position were \$429,519 and \$469,856 for 2017 and 2016, respectively.

Ad valorem Taxes. The Hospital received approximately eight percent (8%) in 2017 and nine percent (9%) in 2016 of its financial support from ad valorem taxes. Current taxes are received beginning in December of each year and become delinquent after January 31 of the following year.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risk Management. The Hospital 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; 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.

Investments in debt and equity securities. Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at approximated fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Net Position. GASB 63 and GASB Codification Section P80, states that net position is equal to assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted when there are limitations imposed on their use either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of net position that does not meet the definition of the two preceding categories.

Net patient service revenue. The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating and Non-operating Revenue. Operating revenue includes net patient revenue, ad valorem taxes, intergovernmental transfer grants, cafeteria and vendor sales, rental income, and other revenues determined by management to be derived from operations of the hospital. Non-operating revenues include grant revenue, interest income and gains or losses not considered to be derived from operations of the hospital.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted Resources. Restricted funds may be designated by the board in order to comply with bond covenants, contracts, or other specific purposes. The Hospital first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Income Taxes. The Hospital is a political subdivision and exempt from taxes.

Advertising. The Hospital expenses advertising costs as incurred.

Environmental Matters. Due to the nature of the Hospital's operations, materials handled could lead to environmental concerns. However, at this time, management is not aware of any environmental matters which need to be considered.

Reclassifications. To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net assets.

NOTE 2: MAJOR SOURCE OF REVENUE

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Hospital derived approximately 69% and 62% of its gross patient service revenue in 2017 and 2016, respectively, from patients covered by the Medicare and Medicaid programs. The Hospital received total grant revenue, including operating and non-operating, of \$5,948,808 and \$5,395,758 for 2017 and 2016, respectively.

NOTE 3: NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

A summary of the payment arrangements with major third-party payors follows.

Medicare Inpatient services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2014.

Medicaid Inpatient services are reimbursed at a fixed rate per day for medical/surgical patients. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, with certain limitations and exceptions. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports filed by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2011.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 3: NET PATIENT SERVICE REVENUE, CONTINUED

The Louisiana Legislature, through the Healthcare Reform Act of 2007 and Act 1 of 2010, tasked the Department of Health and Hospitals (DHH) to create a new system of care. In response, the DHH reformed its reimbursement methodology for Medicaid patients from a fee-for-service system to the use of a Coordinated Care Network (CCN). During 2011, the DHH enabled certain third-party payor companies to contract with providers under the CCN methodology. The Hospital is currently contracted and enrolled with payors participating in the Coordinated Care Network. Cost reports are filed with these CCNs and are subject to audit.

Commercial The Hospital has entered into payment agreements with certain commercial insurance carriers and preferred-provider organizations. The basis for payment to the Hospital under some of these agreements includes prospectively determined daily rates.

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts, recognized in the period from these major payor sources, is as follows.

Net Patient Service Revenue by Payor before Provision for Doubtful Accounts:

	2017	2016
Medicare	\$ 7,702,481	\$ 8,659,921
Medicaid	11,270,305	7,513,712
All other payors	1,276,294	4,996,832
Total Net Patient Service Revenue Before Provision for Doubtful Accounts	\$ 20,249,080	\$ 21,170,465

The following schedule represents total Net Patient Service Revenue:

	2017	2016
Gross Patient Service Revenue	\$ 36,106,332	\$ 35,094,457
Less: Contractual Adjustments	(17,719,015)	(15,366,611)
Add: Physician Full Medicaid Payment	1,861,763	1,442,619
Net Patient Service Revenue Before Provision for Doubtful Accounts	20,249,080	21,170,465
Provision for Doubtful Accounts	(1,426,856)	(2,990,462)
Net Patient Service Revenue after Provision For Doubtful Accounts	\$ 18,822,224	\$ 18,180,003

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 3: NET PATIENT SERVICE REVENUE, CONTINUED

During the fiscal years ended September 30, 2017 and 2016, the Hospital received funding based on provider services provided to the Managed Care Organizations (MCOs) through the Louisiana Department of Health and Hospital's Bayou Health Program referred to as "Physician Full Medicaid Payment" above. Under this program, the Hospital was required to make intergovernmental transfers ("IGT") totaling \$1,688,215 and \$928,890 to the Louisiana DHH for the years ended September 30, 2017 and 2016, respectively. The hospital later received matching dollars for the transfer in addition to the FMP payment. Before administrative fees paid to the MCO and a third-party representative organization, the Hospital recognized a gross benefit of approximately \$1,861,763 and \$1,188,995 for the years ended September 30, 2017 and 2016, respectively. The Hospital has included this amount in the "Physician Full Medicaid Payment" shown above as a part of Net Patient Service Revenue.

In 2017, the hospital received \$153,163 of these grant funds applicable to 2018. This deferral is located under Deferred Inflows of Resources.

The Hospital also received funds from the Louisiana Department of Health and Hospitals for Physician UPL Supplemental Payments. Under this payment program, which ended in fiscal year 2016, the Hospital recognized \$449,814 of gross funds and subsequently paid an Intergovernmental Transfer to LA DHH in the amount of \$196,190, for a net recognized benefit of approximately \$253,624 for the year ended September 30, 2016. The Hospital included this amount in the "Physician Full Medicaid Payment" shown above as a part of Net Patient Service Revenue.

NOTE 4: ACCOUNTS RECEIVABLE - PATIENTS

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with Medicaid, Commercial, and Self-Pay patients, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience and on the age of the receivable balance. The aged balance indicates that third-party claims have reached an age where the probability of payment is low and that self-pay patients are unable or unlikely to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patients Accounts Receivable consists of the following:

	2017	2016
Total Patient Accounts Receivable	\$ 4,495,361	\$ 4,484,556
Less: Allowances for Doubtful Accounts and Contractual Allowances	(2,687,579)	(2,901,418)
Net Patient Accounts Receivable	\$ 1,807,782	\$ 1,583,138

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 5: ACCOUNTS RECEIVABLE - OTHER

Other Accounts Receivable consists of the following:

	2017	2016
Accrued Ad Valorem Tax Revenue	\$ 1,681,806	\$ 1,752,052
Accrued Investment Income	35,090	31,342
Medicaid Physician Rate Enhancement Program	837,439	-
All Other	311,037	175,921
Total Accounts Receivable - Other	\$ 2,865,372	\$ 1,959,315

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, by major category, are as follows:

September 30, 2017

	Asset life in years	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not depreciated:					
Land		\$ 625,739	\$ 76,000	\$ -	\$ 701,739
Construction in Progress		42,163	-	33,434	8,729
Total assets not being depreciated		667,902	76,000	33,434	710,468
Other Capital Assets:					
Buildings	10 - 40	18,261,175	137,411	21,078	18,377,508
Fixed Equipment	5 - 25	571,164	-	-	571,164
Movable Equipment	5 - 25	14,069,950	846,757	-	14,916,707
Land Improvements	5 - 25	1,001,559	10,920	-	1,012,479
Total other assets		33,903,848	995,088	21,078	34,877,858
Less accumulated depreciation for:					
Buildings		8,432,133	931,831	-	9,363,964
Equipment and furniture		12,882,842	464,297	-	13,347,139
Improvements		593,329	63,600	-	656,929
Total Accumulated Depreciation		21,908,304	1,459,728	-	23,368,032
Net Property, Plant and Equipment		\$12,663,446	\$ (388,640)	\$ (54,512)	\$12,220,294

September 30, 2016

	Asset life in years	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not depreciated:					
Land		\$ 625,739	\$ -	\$ -	\$ 625,739
Construction in Progress		83,761	35,134	76,732	42,163
Total assets not being depreciated		709,500	35,134	76,732	667,902
Other Capital Assets:					
Buildings	10 - 40	18,564,730	-	303,555	18,261,175
Fixed Equipment	5 - 25	571,164	-	-	571,164
Movable Equipment	5 - 25	13,572,014	497,936	-	14,069,950
Land Improvements	5 - 25	1,001,559	-	-	1,001,559
Total other assets		33,709,467	497,936	303,555	33,903,848
Less accumulated depreciation for:					
Buildings		7,729,843	963,413	261,123	8,432,133
Equipment and furniture		12,377,782	505,060	-	12,882,842
Improvements		529,405	63,924	-	593,329
Total Accumulated Depreciation		20,637,030	1,532,397	261,123	21,908,304
Net Property, Plant and Equipment		\$13,781,937	\$ (999,327)	\$ (119,164)	\$12,663,446

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NOTE 6: PROPERTY, PLANT AND EQUIPMENT, CONTINUED

Total depreciation expense for the years ended September 30, 2017 and 2016 is \$1,459,728 and \$1,532,397, respectively.

Equipment in the amount of \$185,578 and \$65,609 is under capital lease for the periods ended September 30, 2017 and 2016. The related amortization/depreciation expense recognized for the years ended September 30, 2017 and 2016 is \$41,932 and \$13,122.

NOTE 7: OPERATING LEASES

The Hospital leases equipment, storage space, and office space through operating leases. Total lease expense for September 30, 2017 and 2016, respectively, for all operating leases was \$137,909 and \$140,228.

The Hospital entered into a non-cancellable operating lease agreement for lab equipment during the year ended September 30, 2016. Future minimum rental payments under this lease are as follows:

<u>September 30, 2017</u>	
2018	5,580
2019	5,580
2020	3,720
Total	<u>\$ 14,880</u>

<u>September 30, 2016</u>	
2017	\$ 5,580
2018	5,580
2019	5,580
2020	3,720
Total	<u>\$ 20,460</u>

NOTE 8: LONG TERM DEBT

Long-term debt at September 30, 2017 and 2016, consists of the following:

	2017	2016
Revenue Bonds - face value \$5,000,000, dated September 5, 2007, bearing interest at 4.25%, collateralized by hospital revenue, maturing monthly with the final maturity October 5, 2047.	\$ 4,086,808	\$ 4,173,900
Revenue Refunding Bonds - face value \$6,295,462 April 30, 2010, bearing interest at 4.45%, collateralized by Hospital operating revenue, maturing monthly with the final maturity December 1, 2027.	1,786,262	2,260,262

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SEPTEMBER 30, 2017 AND 2016

NOTE 8: LONG TERM DEBT, CONTINUED

Capital Lease Payable, dated October 4, 2012, bearing interest of 3.25%, maturing October 4, 2017, with principal due monthly collateralized by lab equipment	1,584	14,631
Capital Lease Payable, dated October 1, 2016, bearing interest of 1.14%, maturing September 1, 2021, with principal due monthly collateralized by lab equipment	92,516	-
	5,967,170	6,448,793
Less: Current Portion	525,263	488,385
Long-Term Portion	<u>\$ 5,441,907</u>	<u>\$ 5,960,408</u>

A summary of long-term debt activity for the year ended is as follows:

September 30, 2017

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue Bonds 2005	\$ 4,173,900	\$ -	\$ 87,092	\$ 4,086,808
Revenue Bonds 2010	2,260,262	-	474,000	1,786,262
Capital Lease Payable	14,631	119,969	40,500	94,100
Total	<u>\$ 6,448,793</u>	<u>\$ 119,969</u>	<u>\$ 601,592</u>	<u>\$ 5,967,170</u>

September 30, 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue Bonds 2005	\$ 4,257,374	\$ -	\$ 83,474	\$ 4,173,900
Revenue Bonds 2010	2,734,261	-	474,000	2,260,261
Capital Lease Payable	27,680	-	13,048	14,632
Total	<u>\$ 7,019,315</u>	<u>\$ -</u>	<u>\$ 570,522</u>	<u>\$ 6,448,793</u>

Balance due within one year:

	<u>2017</u>	<u>2016</u>
Revenue Bonds 2005	\$ 90,867	\$ 87,093
Revenue Bonds 2010	411,070	386,661
Capital Lease Payable	23,326	14,631
Total	<u>\$ 525,263</u>	<u>\$ 488,385</u>

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SEPTEMBER 30, 2017 AND 2016

NOTE 8: LONG TERM DEBT, CONTINUED

Scheduled repayments on long-term debt are as follows:

September 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 525,263	\$ 238,145	\$ 763,408
2019	583,435	220,443	803,878
2020	609,668	194,915	804,583
2021	549,734	168,395	718,129
2022	107,673	155,127	262,800
2023-2027	612,538	701,462	1,314,000
2028-2032	757,281	556,719	1,314,000
2033-2037	936,229	377,771	1,314,000
2038-2042	1,157,461	156,539	1,314,000
2043	127,888	1,572	129,460
Total	<u>\$ 5,967,170</u>	<u>\$ 2,771,088</u>	<u>\$ 8,738,258</u>

September 30, 2016

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 488,385	\$ 261,056	\$ 749,441
2018	536,001	246,345	782,346
2019	559,044	222,218	781,262
2020	582,903	197,008	779,911
2021	583,440	170,712	754,152
2022-2026	587,094	726,906	1,314,000
2027-2031	725,826	588,174	1,314,000
2032-2036	897,340	416,660	1,314,000
2037-2041	1,109,383	204,617	1,314,000
2042-2043	379,377	12,833	392,210
Total	<u>\$ 6,448,793</u>	<u>\$ 3,046,529</u>	<u>\$ 9,495,322</u>

NOTE 9: BOND DEFEASANCE

On April 30, 2010, the Hospital issued \$6,295,462 in Revenue Bonds (Refunding Bonds, Series 2010) with interest rate of 4.45% and annual debt service payments from \$515,052 to \$519,545. These bonds were issued through a current refunding totaling \$6,295,457 of outstanding 2005A Revenue Bonds (R-1 and R-2) bearing interest rates of 7.83% and 6.50%, respectively. The net proceeds were used to immediately refund the Series 2005A Revenue Bonds.

As a result, the 2005A Revenue Bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$51,687. This amount has been amortized and has a net carrying value of \$30,399 and \$33,335 for September 30, 2017 and 2016, respectively, and is reflected on the Statement of Net Position as Deferred Outflows of Resources. It is being amortized over the remaining life of the refunded debt, which has a shorter life than the original bonds. At the time of the refunding, aggregate debt service payments were reduced by \$1,048,787, and the Hospital obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,313,547. The effective interest rate on the new issue is 4.49%.

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NOTE 10: CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	25%	18%
Medicaid	21	16
Commercial and other third-party payors, and patients	<u>54</u>	<u>66</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 11: ASSETS WHOSE USE IS LIMITED

Pursuant to a resolution by the Board of Commissioners of the hospital made in February of 2008, a board-designated plant fund was established to be utilized for replacement of existing capital assets and the purchase of new capital assets.

In relation to the revenue bonds issued on September 7, 2005 with a face value of \$5,000,000, the hospital entered into an agreement with the United States Department of Agriculture to reserve cash funds as follows:

"Borrowers issuing bonds or other evidences of debt pledging facility revenues as a security will plan their reserve to provide for at least an annual reserve payment equal to one-tenth of an average annual loan installment, with payments made monthly and evenly divided between a reserve fund and a depreciation and contingency fund, until an amount equal to the highest annual debt service in any future year is accumulated in the reserve fund..."

In relation to the revenue bonds issued April 30, 2010 with a face value of \$6,295,462, the hospital entered into an agreement with Capital One, N. A., to reserve cash funds as follows:

Debt Service (Sinking) Fund:

"The maintenance of the 'Hospital Revenue Bond Sinking Fund' sufficient in amount to pay promptly and fully the principal of and the interest on the Outstanding Parity Bonds and Bonds, including any pari passu bonds issued hereafter in accordance with Outstanding Parity Bond resolution, as said bonds severally become due and payable by transferring from the Operating fund to the paying agent, monthly in advance ... a monthly amount of moneys sufficient to provide payment of principal and/or interest and premium, if any, on the Outstanding Parity Bonds and Bonds at the time such payment is due...It is not expected that any amounts will remain in the Debt Service Fund after all payments in a Bond Year have been made therefrom."

Reserve Fund:

"The maintenance of the 'St. Mary Parish Hospital Service District No. 1 Reserve Fund', by transferring...monthly in advance...a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund..."

Contingency Fund:

"The maintenance of the 'St. Mary Parish Hospital District Depreciation and Contingency Fund'...by transferring...monthly in advance...a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund...When a sum equal to the Debt Service Reserve Requirement has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall be increased to an amount equal to 10% of the amount being paid monthly into the Sinking Fund said payments to continue over the life of the bonds."

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 11: ASSETS WHOSE USE IS LIMITED, CONTINUED

On April 22, 2015 the board restricted use of grant funds received from the Full Medicaid Capacity Program to be used for purposes connected to establishing Franklin Foundation Hospital as a Center of Excellence. These funds will be used for non-operating expenses.

In August of 2014, the hospital settled a litigation for interior repairs and remediation work resulting from deficiencies in the initial construction of the Hospital. The Hospital received a lump sum of \$250,000 in October of 2014 of which the board has reserved in order to fund the necessary remediation.

The composition of assets limited as to use at September 30, 2017 and 2016 are set forth in the following table:

	2017	2016
Internally designated for capital acquisitions	\$ 583,706	\$ 582,114
By Bond Indenture - Series 2005 Contingency Fund	134,411	120,889
By Bond Indenture - Series 2010 Contingency Fund	189,123	163,355
By Bond Indenture - Series 2005 Reserve Fund	134,413	120,890
By Bond Indenture - Series 2010 Reserve Fund	189,123	163,355
Building Litigation Settlement	250,000	250,000
Full Medicaid Capacity Funding Grant	6,182,412	4,514,680
Total Assets Whose Use is Limited	\$ 7,663,188	\$ 5,915,283

NOTE 12: BANK DEPOSITS AND INVESTMENTS

The Hospital had bank balances as follows:

	2017	2016
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	9,832,641	8,634,315
Total	\$ 10,082,641	\$ 8,884,315
Cash and Cash Equivalents - Bank Balance	\$ 10,092,660	\$ 8,084,844
Portion Covered by Federal Deposit Insurance	\$ 250,000	\$ 250,000
Collateralized by Securities	\$ 10,082,641	\$ 8,634,315

The Hospital's investment policy states that it must at all times conform to Louisiana R.S. 33:2955, as amended from time to time, which is the main statute that governs investments that local political subdivisions are allowed to make in Louisiana. In addition, Act 264 of the 2012 Regular Session enacted R.S. 46:1073 which allows hospital service districts (as defined in R.S. 46:1072) to invest its funds in the same manner as provided by law for investment of funds of the Louisiana Employees Retirement System (LASERS) including but not limited to R.S. 11:263 (the "prudent man rule"). However, any such investment may be made only in compliance with rules and regulations established by the Hospital's Board of Commissioners and in compliance with the provisions of R.S. 11:263 and any other law which provides for the investment of funds in which the funds of LASERS may be invested.

The Hospital's investment policy also states that all investment decisions shall be the responsibility of the Board and that all investment decisions are to be made using reasonable efforts to control risk.

Investments are reported at their fair values in the statement of net position. Unrealized gains and losses are included in the change in net position in the statement of revenues, expenses, and changes in net position. Investments consisted of the following as of September 30, 2017 and 2016:

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

	2017	
	Cost	Market Value
Federated Prime Obligation Fund, .01% (AAAm/Standard & Poor)	\$ 21,028	\$ 21,028
Federal Home Loan Banks Note, .875% (AA+/Standard & Poor)	249,958	249,303 ¹
Federal Home Loan Banks Note, 1.375% (AA+/Standard & Poor)	349,385	348,786 ¹
Fannie Mae Note, 1.5% (AA+/Standard & Poor)	50,968	49,860
Fannie Mae Note, 1.75% (AA+/Standard & Poor)	255,554	251,060 ¹
Fannie Mae Note, 1.25% (AA+/Standard & Poor)	200,861	199,050
Alabama St. Port Auth Docks FACS Ser D 2.56% Maturity 10/01/2021 (AA/Standard & Poor)	202,294	201,346
Allen Cnty IND Redev Dist Taxable Ser A 1.35% Maturity 11/15/2017 (A2/Moody's Rating)	99,916	99,968
Bossier City LA Pub Impt Sales & Use Tax Revenue Txbl-Ref 2% Maturity 12/01/2018 (AA3/Moody's Rating)	121,129	120,348
Boulder Cops Txbl 3% Maturity 11/01/2020 (AA1/Moody's Rating)	234,452	231,482 ¹
Colorado Springs CO Utilities Revenue Build America Bonds 3.446% Maturity 11/15/2018 (AA2/Moody's Rating)	105,209	102,046
Connecticut St Txbl-B 2.5% Maturity 08/01/2020 (AA3/Moody's Rating)	100,778	100,169
FSU Financial Assistance Inc Assistance Inc Txble Ser B 1.5% Maturity 10/01/2017 (A1/Moody's Rating)	200,000	200,000

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NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

	2017	
	Cost	Market Value
Georgia Mun Elec Auth Taxable-Sub Gen Resolution 3.52% Maturity 01/01/2018 (A/S&P) (A2/Moody's Rating)	238,225	225,743 ¹
Glendale Cmnty Dev Auth Ref-Taxable Ser B 1.7% Maturity 10/01/2017 (A1/Moody's Rating)	150,000	150,000
Harlingen TX Econ Dev Corp Sales Taxable-Lease Rental Ser B 5.29% Maturity 02/15/2018 (AA/Standard & Poor)	216,634	202,184
High Point NC Comb Enterprise Sys Rev Build America Bonds 3.904% Maturity 11/01/2017 (AAA/S&P) (AA2/Moody's Rating)	162,217	155,321
Hollywood Beach Cmnty Dev Dist Revenue Txb1-Public Pkg Facs Proj 5% Maturity 10/01/2018 (A1/Moody's Rating)	107,820	102,582
Kansas City Spl Oblg Taxable Kansas City MO Ser C 5.361% Maturity 04/01/2018 (AA-/S&P) (A1/Moody's Rating)	109,382	101,929
Metropolitan Transport Auth NY Build America Bonds-Taxable Transn-Ser C-1 4.546% Maturity 11/15/2017 (AA-/Standard & Poor)	111,095	105,380
Mississippi ST Taxable-Ser D 4.34% Maturity 10/01/2011 (AA/S&P) (AA2/Moody's Rating)	104,190	102,978
Monmouth OR Taxable Ref Obligs Ser B 1.84% Maturity 12/01/2018 (A+/Standard & Poor)	205,697	204,772
New Hampshire St Hsg Fin Auth SF Revenue Taxable Ref Ser A 1.758% Maturity 01/01/2018 (AA2/Moody's Rating)	105,000	104,919
New York State Build America Bonds 5.049% Maturity 12/01/2021 (AA2/S&P) (AA/Moody's Rating)	83,783	82,278

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NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

	2017	
	Cost	Market Value
Satilla Regl Wtr & Swr Auth GA Wtr & Swr Revenue Txbl-Ref-Ser B 2% Maturity 06/01/2018 (AA/Standard & Poor)	100,162	100,133
Tampa Bay FL Wtr Regl Wtr Sply Auth Utility Sys Revenue Ref-Txbl-Ser B 1.362% Maturity 06/01/2018 (AA+/Standard & Poor)	149,100	149,622
Tennessee Hsg Dev Agy RSDL FING Program Revenue 1.561% Maturity 07/01/2019 (AA+Standard & Poor)	115,000	114,294
Wichita KS Txbl-Ser 815 2% Maturity 12/01/2019 (AA+/S&P) (AA1/Moody's Rating)	25,248	25,167
	\$ 4,175,085	\$ 4,101,748
	2016	
	Cost	Market Value
Federated Prime Obligation Fund, .01% (AAAm/Standard & Poor)	\$ 321,996	\$ 321,996 ¹
Federal Home Loan Banks Note, .875% (AA+/Standard & Poor)	249,958	250,960 ¹
Fannie Mae Note, 1.5% (AA+/Standard & Poor)	50,968	50,762
Fannie Mae Note, 1.75% (AA+/Standard & Poor)	255,554	255,405 ¹
Allen Cnty IND Redev Dist Taxable Ser A 1.35% Maturity 11/15/2017 (A2/Moody's Rating)	199,832	200,240
Bossier City LA Pub Impt Sales & Use Tax Revenue Txbl-Ref 2% Maturity 12/01/2018 (AA3/Moody's Rating)	121,129	122,242
Boulder Cops Txbl 3% Maturity 11/01/2020 (AA1/Moody's Rating)	234,452	239,108 ¹

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SEPTEMBER 30, 2017 AND 2016

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

	2016	
	Cost	Market Value
Colorado Springs CO Utilities Revenue Build America Bonds 3.446% Maturity 11/15/2018 (AA2/Moody's Rating)	105,209	104,584
Connecticut St Txbl-B 2.5% Maturity 08/01/2020 (AA3/Moody's Rating)	100,778	102,806
FSU Financial Assistance Inc Assistance Inc Txble Ser B 1.5% Maturity 10/01/2017 (A1/Moody's Rating)	200,000	200,470
Georgia Mun Elec Auth Taxable-Sub Gen Resolution 3.52% Maturity 01/01/2018 (A/S&P) (A2/Moody's Rating)	238,225	231,424 ¹
Glendale Cmnty Dev Auth Ref-Taxable Ser B 1.7% Maturity 10/01/2017 (A1/Moody's Rating)	150,000	150,962
Harlingen TX Econ Dev Corp Sales Taxable-Lease Rental Ser B 5.29% Maturity 02/15/2018 (AA/Standard & Poor)	216,634	210,144 ¹
High Point NC Comb Enterprise Sys Rev Build America Bonds 3.904% Maturity 11/01/2017 (AAA/S&P) (AA2/Moody's Rating)	162,217	160,034
Hollywood Beach Cmnty Dev Dist Revenue Txbl-Public Pkg Facs Proj 5% Maturity 10/01/2018 (A1/Moody's Rating)	107,820	106,589
Kansas City Spl Oblg Taxable Kansas City MO Ser C 5.361% Maturity 04/01/2018 (AA-/S&P) (A1/Moody's Rating)	109,382	106,444
McKinney Cmnty Dev Corp Sales Tax Revenue Txbl 1.15% Maturity 08/15/2017 (AA-/Standard & Poor)	109,999	110,207
Metropolitan Transport Auth NY Build America Bonds-Taxable Transn-Ser C-1 4.546% Maturity 11/15/2017 (AA-/Standard & Poor)	111,095	109,006

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SEPTEMBER 30, 2017 AND 2016

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

Mississippi ST Taxable-Ser D 3.907% Maturity 10/01/2016 (AA/S&P) (AA2/Moody's Rating)	162,441	150,000
Monmouth OR Taxable Ref Obligs Ser B 1.84% Maturity 12/01/2018 (A+/Standard & Poor)	205,697	207,651 ¹
New Hampshire St Hsg Fin Auth SF Revenue Taxable Ref Ser A 1.758% Maturity 01/01/2018 (AA2/Moody's Rating)	120,000	120,365
New York State Urban Dev Corp Rev Txbl-ST Personal Income Tax-Ser F 1.0% Maturity 03/15/2017 (AAA/S&P) (AA1/Moody's Rating)	99,534	100,052
Owensboro KY Taxable 3.125% Maturity 12/01/2016 (A1/Moody's Rating)	102,876	100,338
Rhode Island St & Providence GO St & Providence Plantations Txbl- Capital Dev Loan-Ser B 1.227% Maturity 10/15/2016 (AA/S&P) (AA2/Moody's Rating)	100,000	100,008
Satilla Regl Wtr & Swr Auth GA Wtr & Swr Revenue Txbl-Ref-Ser B 2% Maturity 06/01/2018 (AA/Standard & Poor)	100,162	101,704
Tampa Bay FL Wtr Regl Wtr Sply Auth Utility Sys Revenue Ref-Txbl-Ser B 1.362% Maturity 06/01/2018 (AA+/Standard & Poor)	149,100	151,037
Wichita KS Txbl-Ser 815 2% Maturity 12/01/2019 (AA+/S&P) (AA1/Moody's Rating)	25,248	25,751
	<u>\$ 4,110,306</u>	<u>\$ 4,090,289</u>

¹ denotes a concentration of credit risk due to the individual investment value representing a percentage greater than or equal to five percent of the total investment value.

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NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

The net decrease in the fair value of investments was a decrease of \$73,328 and decrease of \$20,017 for the years ended September 30, 2017 and 2016, respectively.

Fair Value of Financial Instruments

FASB Accounting Standards Codification Topic 820, "Fair Value Measurements (Topic 820)." Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements.

These levels are:

Level 1 - inputs are based upon adjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 - inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

All investments are based on Level 1 inputs. The hospital relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

NOTE 13: NET POSITION

Net position for the years ended September 30, are as follows:

	<u>2017</u>	<u>2016</u>
Invested in Capital Assets, net of related debt	\$ 6,253,124	\$ 6,214,653
Restricted for:		
Capital Projects (Expendable)	583,705	582,114
Bond Indenture (Expendable)	647,071	568,489
Building Mediation Settlement (Expendable)	250,000	250,000
Center of Excellence Endeavors (Expendable)	6,182,412	4,514,680
Unrestricted	10,464,432	9,884,821
Total Net Position	<u>\$ 24,380,744</u>	<u>\$ 22,014,757</u>

NOTE 14: CASH FLOW SUPPLEMENTAL INFORMATION

Cash and cash equivalents reported in the cash flow statement are as follows:

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 2,072,615	\$ 1,696,050
Cash Whose Use is Limited	7,663,188	5,915,283
Cash and Cash Equivalents at End of Year	<u>\$ 9,735,803</u>	<u>\$ 7,611,333</u>

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 15: GOVERNING BOARD EXPENSES

The board of commissioners of Hospital Service District No. 1, Parish of St. Mary received no compensation for the years ended September 30, 2017 and 2016.

NOTE 16: PENSION PLAN

The Hospital has two defined contribution retirement plans, a 457(b) plan and a 401(a) plan, which are administered by Principal Financial Group. Qualified Employees may elect to make contributions to the plans through salary reduction agreements. The employees are 100% vested in the 457(b) plan when the first contribution is made. The 401(a) plan's vesting percentage varies in relation to the employee's period of service. The amount of the employer contribution is currently 2% of the eligible participants' annual compensation. Benefit terms and amendments require approval by management and the board. Total expense for the years ended September 30, 2017 and 2016 was \$182,245 and \$184,107, respectively. Forfeitures may first be used to pay administrative expenses. Forfeitures of matching contributions that relate to excess amounts may be used to reduce employer contributions. Forfeitures reflected in pension expense as a reduction of employer contributions were approximately \$7,176 and \$10,335 for the years ended September 30, 2017 and 2016, respectively. The accrued pension plan liability was \$187,238 and \$163,437 for the years ended September 30, 2017 and 2016, respectively.

NOTE 17: CHARITY CARE

The Hospital provides services without charge or at amounts less than its rates to patients who meet the criteria of its charity care policy. The criteria for charity care consider items such as family income, net worth, extent of financial obligations for healthcare services, etc. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported in revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges forgone, based on established rates, were approximately \$43,269 and \$202,803 for the years ended September 30, 2017 and 2016, respectively.

Management estimates that approximately \$29,715 and \$142,150 of costs were related to charity care for the years ended September 30, 2017 and 2016, respectively. This estimate is based on a ratio of total cost to gross patient charges applied to gross uncompensated charges associated with providing care to charity patients.

NOTE 18: CONTINGENCIES AND COMMITMENTS

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

The principal contingencies are described below:

Third-party-based Revenues - Cost reimbursements and claims are subject to examination by agencies administering the programs. 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.

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 privacy, 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

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 18: CONTINGENCIES AND COMMITMENTS, CONTINUED

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.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal healthcare reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of the Hospital's principal payors. It is not possible at this time to determine the impact on the Hospital of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows and estimated debt service coverage of the Hospital in future years.

Professional Liability Risk - The Hospital is contingently liable for losses outside of its professional liability insurance coverage.

NOTE 19: UNCOMPENSATED CARE REVENUE AND OTHER FUNDING

Intergovernmental Transfers-Operating Grant. The Hospital received Uncompensated Care ("UCC") for the years ended September 30, 2014 and prior years (formerly called Disproportionate Share payments or "DSH"). In fiscal year 2015 the Hospital entered into a cooperative endeavor agreement ("CEA") with a regional public rural hospital (the "Grantor") whereby the Grantor distributes the funds as an intergovernmental transfer ("IGT"). The aggregate IGT grant revenue is \$3,468,548 and \$2,656,848 for the years ended September 30, 2017 and 2016, respectively, and is reflected on the Statement of Revenues, Expenses and Changes in Fund Net Position in Intergovernmental Transfers-Operating Grant.

The UCC reimbursements are based upon estimated uncompensated care costs and are subject to audit by the Louisiana Department of Health and Hospitals ("DHH"). The Hospital has elected to aggregate these related balances and reflect the net liability on the Statement of Net Position in Due to Third Party Payors. The UCC balances per year are reflected as follows:

	<u>2017</u>	<u>2016</u>
2011 Uncompensated Care Receivable	\$ -0-	\$ 240,428
2012 Uncompensated Care Payable	-0-	(76,673)
2013 Uncompensated Care Payable	(234,825)	(234,825)
2014 Uncompensated Care Payable	<u>(66,105)</u>	<u>(194,204)</u>
Total Net Liability	<u>\$ (300,930)</u>	<u>\$ (265,274)</u>

Full Medicaid Payment Program Funding. The Hospital received Full Medicaid Payment Program ("FMPP") funding from the Louisiana Department of Health & Hospitals ("DHH") during the fiscal years ended September 30, 2017 and 2016. As a part of the agreement with the DHH, the Hospital was required to provide an IGT of 38% and 37.83%, respectively, of the gross funds to the DHH in order to secure federal Medicaid matching funds. In addition, the Hospital entered into a Cooperative Endeavor Agreement ("CEA") with Teche Action Board, Inc., a Louisiana non-profit corporation, under the terms of which the Hospital granted a portion of the FMPP funding to Teche Action Board, Inc. for the purpose of promoting and providing for the general health of the community. Under the terms of the CEA, in the

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 19: UNCOMPENSATED CARE REVENUE AND OTHER FUNDING, CONTINUED

event that the Hospital does not receive funding for these efforts, there is no obligation on the Hospital to provide funds to Teche Action Board, Inc.

The following is a breakdown of the Full Medicaid Payment Program funding received by the Hospital during the year ended September 30, 2017 and 2016:

	2017	2016
Gross Full Medicaid Payment Program Funding	\$ 6,000,000	\$ 6,000,000
Intergovernmental Transfer (IGT)	(2,277,890)	(2,269,800)
Rural Coalition Fee	(59,944)	-
Net Full Medicaid Payment Program Funding	\$ 3,662,166	\$ 3,730,200
Funds Granted to Teche Action Board, Inc.	(1,220,722)	(1,243,400)
Grant Revenue - Franklin Foundation Hospital	\$ 2,441,444	\$ 2,486,800

The FMPP grant revenue is reflected on the Statement of Revenues, Expenses and Changes in Fund Net Position as Non-operating Revenue - Full Medicaid Payment Program Funding. On April 22, 2015 the Board restricted use of the FMPP grant funds to purposes connected to establishing the Hospital as a Center of Excellence. These funds will be used for non-operating activities.

NOTE 20: GRANT REVENUE

Electronic Health Records. The Hospital recognized non-operating grant income of \$408 and \$152,963 from Medicare and \$-0- and \$96,921 from Medicaid for the years ended September 30, 2017 and 2016, respectively, as an incentive for implementing electronic health records (EHR). The key component of receiving the EHR incentive payments is "demonstrating meaningful use" which is meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid has indicated that demonstrating meaningful use will be phased in in three stages, with each progressive stage incorporating more stringent measures. The Hospital's policy is to record the incentive payments once various stages have been met and the funds received, rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management's best estimate. The payments can be retained and additional payments can be earned for each stage if the Hospital meets certain criteria in future implementation.

The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

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

NOTE 21: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Beginning after December 18, 2018, a new revenue recognition standard will be effective, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 21: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, CONTINUED

FASB's new lease accounting standard, ASU 2016-02, Leases (Topic 842), was issued on February 25, 2016. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years

NOTE 22: SUBSEQUENT EVENTS

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through February 22, 2018, the date the financial statements were available to be issued.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE

FOR THE YEARS ENDED SEPTEMBER 30,

INPATIENT SERVICE REVENUES

	2017	2016
Daily Patient Services:		
Room and Board	\$ 1,712,775	\$ 1,839,543
Total Daily Patient Services	1,712,775	1,839,543
Other Nursing Services:		
Central Supplies	1,738,525	1,808,837
Emergency Service	15,159	9,399
Labor and Delivery	189,318	251,150
Observation	5,494	4,091
Operating Room	384,832	438,980
Total Other Nursing Services	2,333,328	2,512,457
Other Professional Services:		
Anesthesiology	246,660	252,479
Blood	75,006	105,851
Cardiac Rehab	1,094	547
EKG & EEG	127,861	144,740
Family Medicine	1,672	-
Inhalation Therapy	693,101	694,626
Laboratory	787,795	793,923
Pharmacy	1,733,164	1,956,004
Physical Therapy	297,883	302,405
Radiology	244,014	268,262
Wound Care	712	750
Total Other Professional Services	4,208,962	4,519,587
TOTAL INPATIENT SERVICE REVENUE	8,255,065	8,871,587

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE FOR THE YEARS ENDED SEPTEMBER 30,

OUTPATIENT SERVICE REVENUE

	<u>2017</u>	<u>2016</u>
Other Nursing Services:		
Central Supplies	1,237,861	997,665
Emergency Services	5,955,349	5,703,641
Labor and Delivery	25,310	25,898
Observation	74,552	85,835
Operating Room	<u>2,022,528</u>	<u>1,567,337</u>
Total	<u>9,315,600</u>	<u>8,380,376</u>
Other Professional Services:		
Anesthesiology	656,862	491,217
Blood	47,487	47,990
Cardiac Rehab	49,777	23,640
Clinics	2,573,129	2,576,156
EKG and EEG	600,083	580,291
Inhalation Therapy	138,343	128,320
Laboratory	6,354,031	6,231,656
Pharmacy	2,025,603	1,619,770
Physical Therapy	710,128	539,345
Radiology	4,956,071	5,285,672
Wound Care	<u>424,153</u>	<u>318,437</u>
Total	<u>18,535,667</u>	<u>17,842,494</u>
TOTAL OUPATIENT SERVICE REVENUE	<u>27,851,267</u>	<u>26,222,870</u>
GROSS PATIENT SERVICE REVENUE	36,106,332	35,094,457
Less: Contractual Adjustments	<u>15,857,252</u>	<u>13,923,992</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR DOUBTFUL ACCOUNTS	<u>\$ 20,249,080</u>	<u>\$ 21,170,465</u>

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF OTHER OPERATING REVENUES FOR THE YEARS ENDED SEPTEMBER 30.

	<u>2017</u>	<u>2016</u>
Cafeteria and Vendor Sales	\$ 221,450	\$ 202,151
Rental Income	123,918	100,527
Other	<u>80,267</u>	<u>34,159</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 425,635</u>	<u>\$ 336,837</u>

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PROFESSIONAL SERVICES

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
Salaries and Fees:		
Anesthesiology	\$ 349,250	\$ 310,246
Central Supply	107,422	110,195
Clinics	2,881,717	2,564,804
EKG and EEG	3,278	4,566
Emergency Room	1,918,160	1,832,920
Hospitalist	255,000	240,000
Intensive Care Unit	491,979	458,281
Inhalation Therapy	331,634	371,152
Labor and Delivery	824,612	857,286
Laboratory	571,970	796,529
Nursing	1,012,348	1,102,158
Occupational Therapy	93,111	101,374
Operating Room	556,097	550,582
Pharmacy	281,738	276,958
Physical Therapy	282,444	271,925
Radiology	803,345	964,017
Social Services	121,434	97,392
Speech Therapy	77,880	77,811
Wound Care	191,675	148,650
Other	31,558	3,564
Total Professional Salaries and Fees	11,186,652	11,140,410
 Supplies and Other Expenses:		
Anesthesiology	7,813	9,651
Central Supply	239,610	199,330
Clinics	363,937	443,849
Emergency Room	104,690	59,880
Intensive Care Unit	7,305	12,518
Inhalation Therapy	34,649	37,732
Labor and Delivery	28,219	29,961
Laboratory	476,739	211,556
Nursing	74,727	80,330
Operating Room	230,978	106,823
Pharmacy	745,288	712,084
Physical Therapy	12,545	10,054
Radiology	146,090	115,023
Social Services	8,988	2,015
Wound Care	-	22
Total Professional Supplies and Other Expenses	2,481,578	2,030,828
 TOTAL PROFESSIONAL SERVICES	 \$ 13,668,230	 \$ 13,171,238

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
Salaries and Fees:		
Administrative	\$ 3,336,667	\$ 3,347,751
Dietary	206,677	204,397
Housekeeping	271,588	274,917
Maintenance	363,390	244,625
Medical Records	220,505	242,323
Total General and Administrative Salaries and Fees	4,398,827	4,314,013
 Supplies and Other Expenses:		
Administrative	1,377,803	1,615,430
Employee Benefits	3,080,173	3,004,660
Dietary	239,032	239,524
Housekeeping	51,493	59,000
Maintenance	553,789	626,508
Medical Records	30,736	35,789
Total General and Administrative Supplies and Other Expenses	5,333,026	5,580,911
 TOTAL GENERAL AND ADMINISTRATIVE SERVICES	 \$ 9,731,853	 \$ 9,894,924

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO CEO FOR THE YEAR ENDED SEPTEMBER 30,

	2017	2016
STEPHANIE GUIDRY, CEO (January 9, 2017 - September 30, 2017)		
Salary	\$ 138,456	\$ -
Benefits-Insurance	9,912	-
Benefits-Retirement	-	-
Benefits-Other	-	-
Car Allowance	5,400	-
Reimbursements	350	-
Travel	773	-
Conference Travel	2,213	-
Relocation	30,000	-
Housing	248	-
	\$ 187,352	\$ -
 JIM PLATT, INTERIM CEO (November 5, 2016 - January 8, 2017)		
Salary	\$ 32,821	\$ -
Benefits-Insurance	8,387	-
Benefits-Retirement	853	-
Benefits-Other	-	-
Car Allowance	-	-
Reimbursements	5,490	-
Travel	1,968	-
Conference Travel	-	-
Housing	6,042	-
	\$ 55,561	\$ -
 CRAIG CUDWORTH, ACTING CEO (October 1, 2016 - November 4, 2016)		
Salary	\$ 28,185	\$ 196,678
Benefits-Insurance	7,272	11,014
Benefits-Retirement	733	5,114
Benefits-Other	-	-
Car Allowance	-	-
Reimbursements	2,248	25,983
Travel	1,517	9,710
Conference Travel	-	-
Housing	3,721	35,800
	\$ 43,676	\$ 284,299



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INDEPENDENT AUDITOR'S 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

Board of Commissioners
Hospital Service District No. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

We have audited, in accordance with the 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 statements of net position of Hospital Service District No. 1 Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, d/b/a Franklin Foundation Hospital ("the Hospital"), as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 22, 2018.

INTERNAL CONTROL OVER FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements, we considered the Hospital'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 the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan", we identified certain deficiencies in internal control that we consider to be material weaknesses - Findings 2017-1 through 2017-2.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 did not identify findings of noncompliance.

HOSPITAL'S RESPONSE TO FINDINGS

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Hospital'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 the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This communication is intended for the information and use of the Board of Commissioners and management of the Hospital, others within the Hospital, federal awarding agencies, and the Legislative Auditor of the State of Louisiana and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 22, 2018

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
For the years ended September 30, 2017 and 2016

We have audited the financial statements of Hospital Service District Number 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, d/b/a Franklin Foundation Hospital (the Hospital), as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon dated March 23, 2017.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audits of the financial statements as of September 30, 2017 and 2016 resulted in unmodified opinions.

Section 1: Summary of Auditor's Results

A - Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes
Compliance:	
Compliance Material to Financial Statements	No

Section II: Financial Statement Findings

B - Significant Deficiencies and Material Weaknesses

Finding 2017-1 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Cause: The amount of the hospital staff dedicated to the accounting function is limited, and therefore, segregation of duties in all areas is difficult to achieve.

Effect: Failure to adequately segregate accounting and financial functions increases the risk that errors and irregularities including fraud may occur and not be prevented or detected.

Recommendation: The authorization, recording, and reconciliation of transactions and decisions as well as custody of assets related to those transactions and decisions should be segregated functions. Management should increase oversight in areas where this does not occur.

Management Response: Because of the small size of the hospital and the corresponding small staff size, complete segregation of duties is not possible. The hospital

continually looks for process changes or reassignment of responsibilities to the extent that it is practical in order to try to minimize the segregation of duties.

Finding 2017-2 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal years ended September 30, 2017 and 2016 had material effects on the financial statements. The proposed audit adjustments primarily consisted of adjustments to record the effects of Medicaid and Medicare cost reports, filed subsequent to the year-end.

Cause: The filing of annual Medicare and Medicaid cost reports result in settlements either due to or from the Hospital. These settlements result from complex calculations, many variables, several payors, and the use of third party data that is often not complete until several months after year end. These factors make it difficult to properly estimate and record cost report settlements. The Hospital is conservative in its cost report estimates.

Effect: The Hospital's financial statements have been adjusted to reflect all proposed audit journal entries approved by management.

Recommendation: Management should perform a comprehensive review of financial statements, estimates, and journal entries before closing the fiscal year.

Management Response: The Hospital's CFO performs a comprehensive review of the financial statements and estimates, particularly as it relates to the Medicare and Medicaid cost report settlements, and reviews journal entries as well prior to the close of the fiscal year. This results in a conservative position in recording estimated cost report settlements. Because some Medicaid cost reports from prior years, specifically those related to the former "Coordinated Care Network" participants (now "Medicaid Managed Care Organizations" or MCOs), have not yet been settled, it is difficult to properly estimate settlements for later years. When the Hospital estimates these settlements, we consistently take a conservative approach.

Section III: Management Letter Items

There are no management letter items at September 30, 2017.

Hospital Service District NO. 1 Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2017

Section I-Internal Control and Compliance Material to the Financial Statements

Finding 2016-1 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Status: Unresolved. See Finding 2017-1.

Finding 2016-2 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal year ended September 30, 2016 had material effects on the financial statements. The proposed audit adjustments primarily consisted of adjustments to record the effects of Medicaid and Medicare cost reports, filed subsequent to the year-end. There was also a proposed audit adjustment to recognize revenue related to the receipt of a lawsuit settlement.

Status: Unresolved. See Finding 2017-2.



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Ashley V. Breaux, CPA

Chris A. Kohlenberg, CPA, MBA, MHA Retired

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Michael P. Broussard, CPA
Patrick M. Guidry, CPA
Elizabeth L. Whitford, CPA
Kathryn Sagrera Hoag, CPA
Joseph Blake Moss, CPA

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have performed the procedures described in Schedule A – Procedures and Results, which were agreed to by Hospital Service District No. 1 Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, (“the Hospital”), and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA’s Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period October 1, 2016 through September 30, 2017. The Hospital’s management is responsible for those control and compliance areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted 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 for which this report has been requested or for any other purpose.

The procedures and associated findings are described in Schedule A – Procedures and Results.

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 control and compliance 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 control and compliance 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.

Langlinais Broussard & Kohlenberg

LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 22, 2018

Schedule A – Procedures and Results

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) Budgeting, including preparing, adopting, monitoring, and amending the budget
Finding: Policy provided including all of the above functions with the following exceptions noted; the policy does not include a process for amending the budget.
Management Response: The Hospital will revise its policy to address the finding.
 - 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.
Finding: The entity does not have written policies or procedures pertaining to this section.
Management Response: The Hospital will develop written policies and procedures to address the finding.
 - c) Disbursements, including processing, reviewing, and approving
Finding: The entity does not have written policies or procedures pertaining to this section.
Management Response: The Hospital will develop written policies and procedures to address the finding.
 - d) Receipts, including receiving, recording, and preparing deposits
Finding: Policy provided including all of the above functions.
 - e) Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
Finding: The entity does not have written policies or procedures pertaining to this section.
Management Response: The Hospital will develop written policies and procedures to address the finding.
 - 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
Finding: Policy provided including all of the above functions.
 - 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, and (5) monitoring card usage
Finding: The entity does not have written policies or procedures pertaining to this section.
Management Response: The Hospital will develop written policies and procedures to address this finding.
 - h) Travel and expense reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Finding: Procedures provided including all of the above functions with the following exceptions noted; the policy does not include dollar thresholds by category of expense.

Management Response: The Hospital will revise its policy to address the finding.

- 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.

Finding: Policy provided including all of the above functions with the following exceptions noted; the policy does not include prohibitions defined in LA revised Statute 42:1111-1121.

Management Response: The Hospital will revise its policy to address the finding.

- j) Debt Service, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Finding: The entity does not have written policies or procedures pertaining to this section.

Management Response: The Hospital will develop a written policy to address the finding.

Board of Commissioners

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

Finding: The Board met at least monthly with additional special meetings called as needed.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

Finding: The entity has both board meetings and finance committee meetings. It was noted that both groups regularly examined budget to actual comparisons as well as other financial data.

- i. If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

Finding: Not Applicable – no deficit spending noted.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Finding: The entity was noted to have discussed non-budgetary financial information such as contracts and disbursements at several of the monthly meetings.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

Finding: Document provided; no exceptions noted.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

- a) Bank reconciliations have been prepared;

Finding: All bank reconciliations prepared without exception.

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

Finding: All bank reconciliations had evidence of management review without exception.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Finding: 1 of the 6 bank accounts tested had multiple checks older than 6 months outstanding at the end of the fiscal period.

Managements Response: The Hospital will review the checks to address the finding.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Finding: Document provided; no exceptions noted.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). For each cash collection location selected:

- a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

Finding: Documentation obtained without exception. No exceptions noted for any of the above listed functions.

- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

Finding: Cash collection reconciliation process noted at all locations tested. Noted daily receipts are reconciled by employee not responsible for collections.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

- i) Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

Finding: Noted 3 of the 35 deposits tested were not deposited within 1 day of collection; however it was noted that all 3 deposits were made within 2 days of collection.

Managements Response: The Hospital will provide education to its staff on the Hospital's deposit policy in order to address the finding.

- ii) Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Finding: No exceptions were found as a result of this testing procedure.

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

Finding: The Hospital was noted to have policies in place addressing all of the above functions.

Disbursements – General

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

Finding: Document provided; no exceptions noted.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

Finding: All examined transactions utilized an electronic system.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

Finding: All examined transactions had separate approval documented.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Finding: All examined transactions were supported by above listed documentation.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

Finding: Inadequate separation of duties was noted between personnel responsible for payment processing and vendor addition. Employee responsible for processing accounts payable was noted to also be responsible for adding new vendors.

Management Response: The Hospital will move the responsibility for adding new vendors to another employee to address the finding.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

Finding: Adequate separation of duties was noted between personnel responsible for final payment authorization and purchase initiation / recording.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

Finding: The Hospital electronically prints on blank check stock. It was noted during testing that checks are electronically signed with access limited to employees that have physical possession of a "signature card".

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Finding: The Hospital utilizes an electronic signature card that is used only with knowledge and consent of the signer. Signed checks are maintained under lock and key with an authorized employee until mailing. No exceptions noted to these procedures.

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

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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.

Finding: Listing obtained with no exceptions.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

Finding: All examined statements were reviewed and approved by non-card holders without exceptions.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

Finding: Noted finance charges and late fees were present on one of the selected statements.

Management Response: The Hospital will revise its policies and procedures to address the finding.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:

- i) An original itemized receipt (i.e., identifies precisely what was purchased)

Finding: All transactions were supported without exception.

- ii) Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

Finding: Purpose was provided or apparent for all transactions without exception.

- iii) Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

Finding: Not applicable – No policy for credit cards noted.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

Finding: Not Applicable – No transactions fell within the scope of Public Bid Law.

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g.

cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Finding: All examined transactions were compliant with Article 7, Section 14 without exception.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

Finding: Documents provided; no exceptions noted.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

Finding: Policy provided; all amounts adhere to current GSA rates.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

Finding: All examined expenses were reimbursed in accordance with written policy without exception.

- b) Report whether each expense is supported by:

- i) An original itemized receipt that identifies precisely what was purchased.

Finding: All transactions were supported without exception.

- ii) Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).

Finding: Purpose was provided for all transactions without exception.

- iii) Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

Finding: All documentation required by written policy were provided without exception.

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Finding: All examined transactions were in compliance with Article 7, Section 14 without exception.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Finding: All expenses tested were noted to be approved in writing without exception.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Finding: Documents provided; no exceptions noted.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

Finding: Written contract supporting services and amount paid located for all vendors tested without exception.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- i) If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)

Finding: Not Applicable – None of the selected contracts were subject to Louisiana Bid Law.

- ii) If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

Finding: Not Applicable – None of the selected contracts were subject to Louisiana Bid Law.

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

Finding: None of the examined contracts were noted to be amended during the fiscal year.

- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

Finding: All supporting invoices for selected payments complied with terms of contracts without exception.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Finding: Board approval was noted on all of the contacts examined during testing procedures without exception.

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

Finding: All payments to selected employees agreed with terms and conditions of employment contracts without exception.

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Finding: All changes to pay rates of selected employees were approved in writing and in accordance with client policies without exception.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).

Finding: All selected employees documented daily attendance and leave without exception.

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

Finding: All attendance and leave records for selected employees were approved by a supervisor without exception.

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Finding: Written leave records were maintained for all selected employees without exception.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Finding: 1 of the 2 largest termination payments tested was not in accordance with company policy. The maximum hours of PTO to be accrued by any employee is 400 hours per company policy. A terminated employee was noted to have been paid for 403 hours upon termination.

Management Response: The Hospital will review its written policies and procedures with staff to address the finding.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Finding: Testing results are summarized below

Area Tested	Findings
Federal & State Quarterly Payroll Forms	All federal tax forms submitted timely. 1 of 4 quarterly state filings was noted to be submitted late.
FICA Tax Deposits	All federal tax deposits examined were noted to be submitted timely.
LA Withholding Deposits	2 of the 26 deposits tested were not submitted timely.
Retirement Contribution Remittance	13 of the 26 deposits tested were not submitted timely.

Management Response: The Hospital will develop written policies and procedures to address the findings.

Ethics

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Finding: All selected employees that were required to undergo ethics training completed required ethics training without exception.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Finding: No ethics violations were found as a result of this testing procedure.

Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

Finding: Not Applicable - No new debt was noted during the fiscal year.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

Finding: All debt service payments were made as scheduled. Additionally, the client maintained all debt reserves required by related debt covenants without exception.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Finding: Not Applicable – The Hospital does not have tax millages relating to debt service.

Other Areas

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Finding: Per inquiry of management, no misappropriations of funds or assets were noted.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.lla.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Finding: The Hospital did not have the required notice posted on its premises or website at time of procedures.

Management Response: The Hospital will post the required notice on its premises and website to address the finding.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Finding: No exceptions were noted in regards to management's representations.