

FRANKLIN MEDICAL CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
APRIL 30, 2011, 2010 AND 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date OCT 12 2011



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF FRANKLIN, STATE OF LOUISIANA
d/b/a FRANKLIN MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

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

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 1 of Franklin Parish, State of Louisiana d/b/a Franklin Medical Center (the "Medical Center") provides background information and management's analysis of the Medical Center's financial performance for the fiscal years that ended April 30, 2011, 2010, and 2009. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

Financial Highlights

Net patient revenue for FY 2011, increased by \$3,344,633 or 23.9%, from \$13,969,457 in FY 2010 due to an increase of inpatient days and new services provided. Overall patient days increased to 6,203 for FY 2011 from 5,428 for the year ending April 30, 2010. This was an increase of 775 patient days from the prior year. Other operating revenue increased by \$29,438.

Rural Health Clinic charges increased by \$1,098,850 or 33.0% for the year ending April 30, 2011. Charges increased from \$3,330,199 for 2010 to \$4,429,049 for 2011. This increase was primarily due to the increase in patients at the clinics.

Long-term debt increased by \$827,001 or 320.2% in FY 2011 to \$1,085,265.

Current assets decreased by \$356,227 or 6.1% for the year ending April 30, 2011.

The net assets increased by \$404,495, 5.1%, which is the net income for the year ending April 30, 2011. Net assets as of April 30, 2011 were \$8,316,058 up from \$7,911,563 as of April 30, 2010.

Expenses for the year ending April 30, 2011 increased by \$2,509,375 or 16.6%. Total expenses for the year ending April 30, 2011 were \$17,646,677, up from \$15,137,302 as of April 30, 2010. Salaries, supplies and drugs, professional fees, and other expenses all increased by approximately 19%. Insurance was the only expense category to decrease from the prior year, a decrease of \$39,635.

Using this Annual Report

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

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

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

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

Management's Discussion and Analysis (continued)

Using this Annual Report (Continued)

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

The Statement of Cash Flows

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

Franklin Medical Center's Net Assets

Franklin Medical Center's net assets are the difference between assets and liabilities reported in the balance sheet. As discussed under the highlights section, Franklin Medical Center's net assets (inclusive of donated assets) increased by \$404,495. Also see the highlights section for a discussion of increases in total assets, current assets and liabilities (accounts payable). Capital assets and long-term debt are shown in the following table.

TABLE 1
Condensed Balance Sheet

	April 30,			
	2011	2010	2009	2008
Total current and other assets	\$ 5,763,033	\$ 6,023,627	\$ 6,283,839	\$ 5,979,762
Capital assets, net	5,474,569	4,067,779	3,779,511	3,987,392
Assets whose use is limited	200,490	200,490	503,289	532,459
Total assets	\$ 11,438,092	\$ 10,291,896	\$ 10,566,639	\$ 10,499,613
Total current liabilities	\$ 2,036,769	\$ 2,122,069	\$ 2,056,403	\$ 2,341,238
Long-term debt, net of current maturities	1,085,265	258,264	418,492	631,169
Total liabilities	3,122,034	2,380,333	2,474,895	2,972,407
Invested in capital assets, net of related debt	3,994,588	3,649,287	3,216,968	3,197,397
Restricted net assets	200,490	200,490	200,490	200,490
Unrestricted net assets	4,120,980	4,061,786	4,674,286	4,129,319
Total liabilities and net assets	\$ 11,438,092	\$ 10,291,896	\$ 10,566,639	\$ 10,499,613

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

Management's Discussion and Analysis (continued)

Required Financial Statements

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

Financial Analysis of the Hospital

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

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

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses and Changes in Net Assets

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

	Years Ended April 30,			
	2011	2010	2009	2008
Net patient service revenue	\$ 17,314,090	\$ 13,969,457	\$ 14,692,542	\$ 14,360,229
Other revenue	247,819	218,381	218,270	478,161
Total operating revenue	17,561,909	14,187,838	14,910,812	14,838,390
Salaries and employee benefits	9,596,705	8,251,747	7,975,177	8,199,503
Pension plan	86,474	102,182	83,420	100,740
Supplies and other	998,728	835,568	765,737	858,375
Professional, mgt. and consulting fees	2,547,951	2,135,824	2,427,235	2,421,849
Other expense	3,302,765	2,785,558	2,676,175	2,996,061
Insurance	245,626	285,261	264,524	260,403
Depreciation and amortization	868,428	741,162	682,790	704,285
Total operating expenses	17,646,677	15,137,302	14,875,058	15,541,216
Operating income (loss)	(84,768)	(949,464)	35,754	(702,826)
<i>Nonoperating income</i>	489,263	97,228	225,985	130,004
Revenues in excess of expenses	404,495	(852,236)	261,739	(572,822)
Capital grants	-0-	672,055	302,799	-0-
Increase (decrease) in net assets	404,495	(180,181)	564,538	(572,822)
Net assets - beginning of year	7,911,563	8,091,744	7,527,206	8,100,028
Net assets - end of year	\$ 8,316,058	\$ 7,911,563	\$ 8,091,744	\$ 7,527,206

Sources of Revenue

Operating Revenue

During fiscal year 2011, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts.

Table 3 presents the relative percentages of gross charges billed for patient services for Medicare and Medicaid for the fiscal years ended April 30, 2011, 2010, 2009 and 2008.

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

Management's Discussion and Analysis (continued)

TABLE 3
Medicare & Medicaid Patient Revenue

	Years ended April 30,			
	2011	2010	2009	2008
Medicare and Medicaid patient charges	\$ 22,403,504	\$ 17,770,691	\$ 18,774,616	\$ 17,351,913
Contractual adjustments	10,078,201	7,703,925	7,119,260	6,565,438
Net Medicare and Medicaid revenue	\$ 12,325,303	\$ 10,066,766	\$ 11,655,356	\$ 10,786,475
Percent of total patient gross charges	71.00%	70.00%	76.88%	73.04%
Percent of total patient revenues	71.00%	72.00%	79.33%	75.11%

Operating and Financial Performance

TABLE 4
Patient Statistics

	Year ended April 30,			
	2011	2010	2009	2008
Number of patient days				
Medicare acute care	3,671	3,150	3,621	3,547
Psychiatric	-0-	-0-	-0-	56
Swingbed	518	217	261	274
Medicaid acute care	857	1,147	930	854
Other acute care	1,157	914	840	703
Total	6,203	5,428	5,652	5,434
Number of patient discharges				
Medicare acute care	900	779	823	818
Psychiatric	-0-	-0-	-0-	6
Swingbed	67	35	47	47
Medicaid acute care	317	299	300	283
Other acute care	352	320	266	251
Total	1,636	1,433	1,436	1,405
Average length of patient stay				
Medicare acute care	4.1	4.0	4.4	4.3
Psychiatric	N/A	N/A	N/A	9.3
Swingbed	7.7	6.2	5.6	5.8
Medicaid acute care	2.7	3.8	3.1	3.0
Other acute care	3.3	2.9	3.2	2.8
Average length of stay for acute care	3.6	3.7	3.9	3.8

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

Management's Discussion and Analysis (continued)

Capital Assets

TABLE 5
Capital Assets

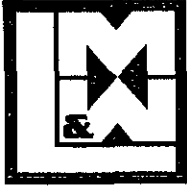
	April 30			
	2011	2010	2009	2008
Land and land improvements	\$ 657,500	\$ 197,500	\$ 197,500	\$ 197,500
Buildings	4,793,109	4,383,109	4,374,961	4,374,961
Fixed equipment	2,667,309	2,667,309	2,580,841	2,544,204
Major movable equipment	10,378,042	8,977,540	7,721,245	7,642,014
Subtotal	18,495,960	16,225,458	14,874,547	14,758,679
Less accumulated depreciation and amortization	13,021,739	12,157,679	11,442,717	10,775,210
Construction-in-progress	348	-0-	347,681	3,923
Net property, plant and equipment	\$ 5,474,569	\$ 4,067,779	\$ 3,779,511	\$ 3,987,392

Long-Term Debt

Long-term debt consists of capital leases. During FY 2011, the Hospital made payments of \$246,521. Long-term debt increased by \$827,001 or 320.2% in 2011, as a result of entering into four new capital leases and a note payable.

Contacting the Hospital's Financial Manager

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



LESTER, MILLER & WELLS

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of Franklin, State of Louisiana, Franklin Medical Center (the Hospital), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2011, 2010, and 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Franklin, as of April 30, 2011, 2010, and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

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

Lester Miller & Wells

Certified Public Accountants

Alexandria, Louisiana
September 23, 2011



FRANKLIN MEDICAL CENTER
BALANCE SHEETS
APRIL 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 855,962	\$ 1,783,030	\$ 2,150,734
Short-term investments (Note 3)	1,668,145	2,476,709	2,421,944
Accounts receivable, net of allowances for uncollectibles (Note 4)	1,205,578	1,178,068	1,110,794
Estimated third-party payor settlements	1,421,420	208,840	278,985
Inventories	312,426	191,378	163,602
Prepaid expenses	59,919	41,652	77,213
Total Current Assets	<u>5,523,450</u>	<u>5,879,677</u>	<u>6,203,272</u>
Non-Current Assets			
Capital assets, net (Note 5 and 6)	5,474,569	4,067,779	3,779,511
Organizational costs	-0-	4,367	30,567
Notes receivable	239,583	139,583	50,000
Assets whose use is limited (Note 7)	200,490	200,490	503,289
Total Assets	<u>\$ 11,438,092</u>	<u>\$ 10,291,896</u>	<u>\$ 10,566,639</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 450,345	\$ 627,058	\$ 609,721
Accrued salary and payroll taxes	368,758	230,032	255,532
Accrued vacation payable (Note 8)	531,708	381,144	247,401
Estimated third-party payor settlements	291,242	723,607	799,698
Current portion of long-term debt (Note 9)	424,994	160,228	144,051
Total Current Liabilities	<u>2,067,047</u>	<u>2,122,069</u>	<u>2,056,403</u>
Long-term Liabilities			
Capital lease obligations (Note 9)	<u>1,054,987</u>	<u>258,264</u>	<u>418,492</u>
Net Assets			
Invested in capital assets, net of related debt	3,994,588	3,649,287	3,216,968
Restricted net assets	200,490	200,490	200,490
Unrestricted net assets	4,120,980	4,061,786	4,674,286
Total Net Assets	<u>8,316,058</u>	<u>7,911,563</u>	<u>8,091,744</u>
Total Liabilities and Net Assets	<u>\$ 11,438,092</u>	<u>\$ 10,291,896</u>	<u>\$ 10,566,639</u>

See accompanying notes to financial statements.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Net patient service revenues (Note 10)	\$ 17,314,090	\$ 13,969,457	\$ 14,692,542
Non-restricted contributions	-0-	(1,258)	2,664
Other operating revenues	<u>247,819</u>	<u>219,639</u>	<u>215,606</u>
Total Revenues	<u>17,561,909</u>	<u>14,187,838</u>	<u>14,910,812</u>
Expenses			
Salaries	7,843,817	6,568,417	6,403,550
Benefits and payroll taxes	1,839,362	1,785,512	1,655,047
Supplies and drugs	998,728	835,568	765,737
Professional fees	2,547,951	2,135,824	2,427,235
Other expenses	3,302,765	2,785,558	2,676,175
Insurance	245,626	285,261	264,524
Depreciation and amortization	<u>868,428</u>	<u>741,162</u>	<u>682,790</u>
Total Expenses	<u>17,646,677</u>	<u>15,137,302</u>	<u>14,875,058</u>
Operating Income (Loss)	<u>(84,768)</u>	<u>(949,464)</u>	<u>35,754</u>
Nonoperating Revenues (Expenses)			
Noncapital grants	64,639	98,222	169,795
Contributions	439,713	-0-	-0-
Interest income	27,760	57,375	126,654
Interest expense	<u>(42,849)</u>	<u>(58,369)</u>	<u>(70,464)</u>
Excess of Revenues (Expenses) before Capital Grants	404,495	(852,236)	261,739
Capital grants	<u>-0-</u>	<u>672,055</u>	<u>302,799</u>
Increase (Decrease) in Net Assets	404,495	(180,181)	564,538
Beginning Net Assets	<u>7,911,563</u>	<u>8,091,744</u>	<u>7,527,206</u>
Ending Net Assets	<u>\$ 8,316,058</u>	<u>\$ 7,911,563</u>	<u>\$ 8,091,744</u>

See accompanying notes to financial statements.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 15,641,635	\$ 13,896,236	\$ 14,758,907
Other receipts from operations	247,532	220,319	218,237
Cash payments to employees and for employee-related cost	(9,393,889)	(8,245,686)	(8,026,029)
Cash payments for other operating expenses	<u>(7,453,947)</u>	<u>(6,075,458)</u>	<u>(6,165,947)</u>
Net cash provided (used) by operating activities	<u>(958,669)</u>	<u>(204,589)</u>	<u>785,168</u>
Cash flows from investing activities:			
Purchase of certificates of deposit	-0-	(54,765)	(4,308,202)
Proceeds from certificates of deposit	808,564	302,799	5,060,793
Loan to physicians	(100,000)	(89,583)	-0-
Interest income	<u>27,760</u>	<u>55,438</u>	<u>126,654</u>
Net cash provided (used) by investing activities	<u>736,324</u>	<u>213,889</u>	<u>879,245</u>
Cash flows from financing activities:			
Proceeds from noncapital grants	<u>64,639</u>	<u>98,222</u>	<u>169,795</u>
Net cash provided (used) by financing activities	<u>64,639</u>	<u>98,222</u>	<u>169,795</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(522,841)	(1,003,230)	(459,626)
Proceeds from capital grants	-0-	672,055	302,799
Principal payments on long-term debt	<u>(246,521)</u>	<u>(144,051)</u>	<u>(227,452)</u>
Net cash provided (used) by capital and related financing activities	<u>(769,362)</u>	<u>(475,226)</u>	<u>(384,279)</u>
Net increase (decrease) in cash and cash equivalents	(927,068)	(367,704)	1,449,929
Beginning cash and cash equivalents	<u>1,783,030</u>	<u>2,150,734</u>	<u>700,805</u>
Ending cash and cash equivalents	\$ <u>855,962</u>	\$ <u>1,783,030</u>	\$ <u>2,150,734</u>

See accompanying notes to financial statements.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>(42,849)</u>	\$ <u>(58,369)</u>	\$ <u>(70,464)</u>
Equipment acquired through capital lease agreements and donations	\$ <u>1,768,010</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (84,768)	\$ (949,464)	\$ 35,754
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	868,428	741,162	693,707
Provision for bad debts	2,934,466	3,128,678	1,694,567
Interest expense considered capital related	(42,849)	(58,369)	(70,464)
Changes in current assets (increase) decrease:			
Accounts receivable	(2,961,976)	(3,195,952)	(1,765,504)
Estimated third-party payor settlements	(1,212,580)	70,145	441,405
Inventories	(121,335)	(25,839)	1,479
Prepaid expenses	(18,267)	35,561	24,284
Changes in current liabilities increase (decrease):			
Accounts payable and accrued expenses	(176,713)	17,337	2,471
Accrued salary and payroll taxes	138,726	(25,500)	8,168
Accrued vacation payable	150,564	133,743	23,404
Estimated third-party payor settlements	<u>(432,365)</u>	<u>(76,091)</u>	<u>(304,103)</u>
Net cash provided (used) by operating activities	\$ <u>(958,669)</u>	\$ <u>(204,589)</u>	\$ <u>785,168</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Franklin Parish Hospital Service District No. 1 (the Hospital or the District) was created by an ordinance of the Franklin Parish Police Jury on November 2, 1965.

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

The hospital facility was originally built by the Franklin Parish Police Jury which issued ad valorem tax bonds to finance its construction. The District leases the hospital facility and some equipment from the Police Jury as explained further in Note 6. All transactions related to the original bonds sold to finance the facility, the related interest expense, and tax revenues for the payment of the bonds are reflected in the financial statements of Franklin Parish Police Jury. The final bond redemption was made during April 1986, thereby eliminating the Police Jury bond indebtedness related to the District.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, inpatient acute hospital services, and three rural health clinics.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

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

Basis of Accounting

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

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Credit Risk

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

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

Significant Concentration of Economic Dependence

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

Net Patient Service Revenues

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

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

Inventory

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

Income Taxes

The District's income is exempt from taxation.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Restricted non expendable net assets equal the principal portion of permanent endowments. The Hospital has no restricted expendable or non expendable net assets as this time. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Revenue and Expenses

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

Grants and Contributions

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

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Reclassifications

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of April 30, 2011, 2010 and 2009, the balances reported by financial institutions for cash totaled \$2,828,020, \$3,836,568, and \$3,892,237, respectively. The deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name as of April 30, 2011, 2010 and 2009.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates.

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Carrying amount			
Deposits	\$ 855,962	\$ 1,783,030	\$ 2,150,734
Investments	<u>1,868,635</u>	<u>2,677,199</u>	<u>2,925,233</u>
	<u>\$ 2,724,597</u>	<u>\$ 4,460,229</u>	<u>\$ 5,075,967</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 855,962	\$ 1,783,030	\$ 2,150,734
Short-term investments	1,668,145	2,476,709	2,421,944
Assets whose use is limited	<u>200,490</u>	<u>200,490</u>	<u>503,289</u>
	<u>\$ 2,724,597</u>	<u>\$ 4,460,229</u>	<u>\$ 5,075,967</u>

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Patients	\$ 5,945,191	\$ 5,507,685	\$ 4,840,534
Other	<u>1,387</u>	<u>1,383</u>	<u>8,260</u>
Total	5,946,578	5,509,068	4,848,794
Estimated allowances for uncollectibles	<u>(4,741,000)</u>	<u>(4,331,000)</u>	<u>(3,738,000)</u>
Net accounts receivable	<u>\$ 1,205,578</u>	<u>\$ 1,178,068</u>	<u>\$ 1,110,794</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	5%	4%	6%
Medicaid	6%	8%	8%
Commercial and other third-party payors	18%	21%	8%
Patients	<u>71%</u>	<u>67%</u>	<u>78%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 5 - CAPITAL ASSETS

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

	<u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>2011</u>
Land	\$ 197,500	\$ 460,000	\$ -0-	\$ 657,500
Buildings	4,383,109	410,000	-0-	4,793,109
Leasehold improvements	2,667,309	-0-	-0-	2,667,309
Furniture and equipment	8,977,540	1,400,502	-0-	10,378,042
Construction in progress	<u>-0-</u>	<u>348</u>	<u>-0-</u>	<u>348</u>
Total	16,225,458	2,270,850	-0-	18,496,308
Accumulated depreciation	<u>12,157,679</u>	<u>864,060</u>	<u>-0-</u>	<u>13,021,739</u>
Net	\$ <u>4,067,779</u>	\$ <u>1,406,790</u>	\$ <u>-0-</u>	\$ <u>5,474,569</u>
	<u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>2010</u>
Land	\$ 197,500	\$ -0-	\$ -0-	\$ 197,500
Buildings	4,374,961	8,148	-0-	4,383,109
Leasehold improvements	2,580,841	86,468	-0-	2,667,309
Furniture and equipment	7,721,245	1,256,295	-0-	8,977,540
Construction in progress	<u>347,681</u>	<u>-0-</u>	<u>347,681</u>	<u>-0-</u>
Total	15,222,228	1,350,911	347,681	16,225,458
Accumulated depreciation	<u>11,442,717</u>	<u>714,962</u>	<u>-0-</u>	<u>12,157,679</u>
Net	\$ <u>3,779,511</u>	\$ <u>635,949</u>	\$ <u>347,681</u>	\$ <u>4,067,779</u>
	<u>2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>2009</u>
Land	\$ 197,500	\$ -0-	\$ -0-	\$ 197,500
Buildings	4,374,961	-0-	-0-	4,374,961
Leasehold improvements	2,544,204	36,637	-0-	2,580,841
Furniture and equipment	7,642,014	79,231	-0-	7,721,245
Construction in progress	<u>3,923</u>	<u>347,681</u>	<u>3,923</u>	<u>347,681</u>
Total	14,762,602	463,549	3,923	15,222,228
Accumulated depreciation	<u>10,775,211</u>	<u>667,506</u>	<u>-0-</u>	<u>11,442,717</u>
Net	\$ <u>3,987,391</u>	\$ <u>(203,957)</u>	\$ <u>3,923</u>	\$ <u>3,779,511</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT

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

Effective September 29, 1992, the Police Jury renewed its lease to the District. The lease has a term of 30 years and may be terminated at any time by mutual consent of both entities. The lease does not call for the District to pay consideration to the Police Jury.

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

Cost or Fair Market Value on the Date of Donation	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,500	1,842,500	1,842,500
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>2,058,716</u>	<u>2,058,716</u>	<u>2,058,716</u>

Accumulated Depreciation

Buildings	1,842,500	1,842,500	1,819,918
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>2,031,216</u>	<u>2,031,216</u>	<u>2,008,634</u>
Book value of property, plant and equipment	\$ <u>27,500</u>	\$ <u>27,500</u>	\$ <u>50,082</u>

These assets were obtained in part with funds from a Hill-Burton grant of \$763,844. The Hill-Burton program has the ability to recapture a portion of the depreciated replacement cost of these assets should the facility be closed or not used by a qualified recipient.

NOTE 7 - ASSETS WHOSE USE IS LIMITED

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital improvements	\$ -0-	\$ -0-	\$ -0-
LHA trust	200,490	200,490	200,490
Self-insured unemployment fund	<u>-0-</u>	<u>-0-</u>	<u>331,969</u>
Total	\$ <u>200,490</u>	\$ <u>200,490</u>	\$ <u>532,459</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 8 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$531,708, \$381,144 and \$247,401 of vacation pay at April 30, 2011, 2010 and 2009. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 9 - LONG-TERM DEBT

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

	<u>2010</u>	<u>Additions</u>	<u>Payments</u>	<u>2011</u>	<u>Due Within One Year</u>
Lease Payable - GE CT Scan	\$ 418,492	\$ -0-	\$ 161,312	\$ 257,180	\$ 177,138
Bonds Payable - Tensas	-0-	160,000	19,422	140,578	30,278
Lease Payable - Covidien	-0-	25,828	3,887	21,941	8,255
Lease Payable - GE Mammo	-0-	379,673	50,712	328,961	76,067
Lease Payable - GE MRI	-0-	685,000	8,905	676,095	107,502
Lease Payable - Mindray	-0-	57,509	2,283	55,226	25,754
Total	\$ <u>418,492</u>	\$ <u>1,308,010</u>	\$ <u>246,521</u>	\$ <u>1,479,981</u>	\$ <u>424,994</u>
	<u>2009</u>	<u>Additions</u>	<u>Payments</u>	<u>2010</u>	<u>Due Within One Year</u>
Lease Payable - GE CT Scan	\$ <u>562,543</u>	\$ -0-	\$ <u>144,051</u>	\$ <u>418,492</u>	\$ <u>160,228</u>
Total	\$ <u>562,543</u>	\$ -0-	\$ <u>144,051</u>	\$ <u>418,492</u>	\$ <u>160,228</u>
	<u>2008</u>	<u>Additions</u>	<u>Payments</u>	<u>2009</u>	<u>Due Within One Year</u>
Lease Payable - GE CT Scan	\$ 692,050	\$ -0-	\$ 129,507	\$ 562,543	\$ 144,051
Note Payable - Hibernia Bank	7,715	-0-	7,715	-0-	-0-
Lease Payable - Regions Bank	90,230	-0-	90,230	-0-	-0-
Total	\$ <u>789,995</u>	\$ -0-	\$ <u>227,452</u>	\$ <u>562,543</u>	\$ <u>144,051</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 9 - LONG-TERM DEBT (Continued)

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

- Lease Payable with GE Healthcare Financial Services, at an interest rate of 10.7%, due in monthly installments with full repayment at September 1, 2012, secured by CT equipment with a cost of \$638,778 and book value of \$330,035 at April 30, 2011.
- Bonds Payable with Tensas Bank at an interest rate of 4.0%, due in monthly installments with full repayment at August 15, 2015, secured by the Newellton rural health clinic building with a cost of \$410,000 and book value of \$397,700 at April 30, 2011.
- Lease Payable with Covidien at an interest rate of 8.0%, due in monthly installments with full repayment at October 9, 2013, secured by surgical equipment with a cost of \$25,828 and book value of \$23,676 at April 30, 2011.
- Lease Payable with GE Healthcare Financial Services at an interest rate of 0% due in monthly installments with full repayment at July 15, 2015, secured by digital mammography equipment with a cost of \$379,673 and book value of \$329,050 at April 30, 2011.
- Lease Payable with GE Healthcare Financial Services at an interest rate of 2.5%, due in monthly installments with full repayment at March 31, 2017, secured by Mobile MRI equipment with a cost of \$685,000 and book value of \$673,583 at April 30, 2011.
- Lease Payable with Mindray Capital at an interest rate of 5.0%, due in monthly installments with full repayment at April 1, 2013, secured by patient central station monitoring equipment with a cost of \$57,509 and book value of \$55,455 at April 30, 2011.

<u>Year Ending April 30</u>	<u>Capital Lease Obligations</u>		<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 394,716	\$ 38,984	\$ 30,278	\$ 5,157
2013	304,694	16,457	31,541	3,894
2014	193,720	10,104	32,845	2,589
2015	191,780	7,189	34,202	1,233
2016	143,278	4,315	11,712	100
2017	111,215	1,444	-0-	-0-
Totals	\$ 1,339,403	\$ 78,493	\$ 140,578	\$ 12,973

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

NOTE 10 - NET PATIENT SERVICE REVENUES

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

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2012, if not extended by Congress. The additional payment received under the Medicare low volume add-on was \$426,488 for the year ended April 30, 2011. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2012, if not extended by Congress. The additional payments received under the hold harmless provision was \$384,546, \$352,522, and \$519,073 for the years ended April 30, 2011, 2010, and 2009, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. Medicaid paid the Hospital \$661,925 during the year ended April 30, 2011, as an incentive for implementing electronic health records. Payments can be retained and additional payments can be earned if the Hospital meets certain criteria in future implementation, subject to audit. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through April 30, 2007.

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross patient service revenues	\$ 31,748,326	\$ 25,566,419	\$ 24,419,338
Contractual adjustments	(12,081,346)	(9,609,988)	(8,953,568)
Provision for bad debts	(2,934,466)	(3,045,597)	(1,452,698)
Discounts	(130,973)	(456,696)	(620,911)
Uncompensated care reimbursement	<u>712,549</u>	<u>1,515,319</u>	<u>1,300,381</u>
 Net patient service revenues	 \$ <u>17,314,090</u>	 \$ <u>13,969,457</u>	 \$ <u>14,692,542</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare and Medicaid patient charges	\$ 22,403,504	\$ 17,770,691	\$ 18,774,616
Contractual adjustments	<u>(10,078,201)</u>	<u>(7,703,925)</u>	<u>(7,119,260)</u>
Program patient service revenue	\$ <u>12,325,303</u>	\$ <u>10,066,766</u>	\$ <u>11,655,356</u>
Percent of total gross patient charges	<u>71%</u>	<u>70%</u>	<u>77%</u>
Percent of total net patient revenues	<u>71%</u>	<u>72%</u>	<u>79%</u>

The Hospital received interim amounts of \$712,549, \$1,515,319, and \$1,300,381 for Medicaid and self-pay uncompensated care services (UCC) for the years ended April 30, 2011, 2010, and 2009, respectively, which represents 4%, 11%, and 9% of the net patient service revenues, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The Hospital has made provisions for recoupment of \$60,000 for fiscal 2007 year. With the exception of 2007, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 11 - PROFESSIONAL LIABILITY RISK

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

NOTE 12 - CONTINGENCIES

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

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 12 - CONTINGENCIES (Continued)

The principal contingencies are described below:

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

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

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

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

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

The Hospital also participates in the Franklin Medical Center Employee Benefit Plan and Trust. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$50,000 or aggregate claims exceeding \$946,136 per year.

NOTE 13 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by Valic who holds all plan assets. All of the employees over the age of 21 are eligible to participate in the plan. Employees can elect to contribute up to the IRS allowable amount and the District matches the first 3% of the employees' contributions. Actual contributions made by the District for the years ended April 30, 2011, 2010 and 2009 were \$86,474, \$102,182, and \$83,420.

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 14 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2011:

Nicholas Poulos
 Michael Wright
 Paul Price, Jr.
 Dr. Jan Hicks
 Dan Warner

NOTE 15 - OPERATING LEASES

The Hospital is committed under various noncancelable operating leases, all of which are for equipment or buildings. These expire in various years through 2015. Future minimum lease payments are as follows:

<u>Year Ending April 30,</u>	<u>Amount</u>
2012	\$ 261,625
2013	146,770
2014	105,384
2015	32,478
2016	<u>10,410</u>
Total minimum lease payments	\$ <u>556,667</u>

NOTE 16 - GRANT REVENUE

On December 22, 2008, the Hospital entered into a Hospital Information System Funding Agreement with the Rural Hospital Coalition, Inc. (RHC), whereby the RHC shall provide to the Hospital an amount not to exceed \$1,000,000 from State of Louisiana appropriated funds for use in purchasing computer hardware, software and related services to create a health information system (HIS) and participate in the Louisiana Rural Health Information Exchange (LARHIX) system, a cooperative endeavor with the RHC, the Louisiana Department of Health and Hospitals (DHH), and Louisiana State University Health Sciences Center-Shreveport (LSUHSC-S). The Hospital expended and has recognized \$672,055 and \$302,799 as capital grant income in the fiscal periods ended April 30, 2010 and 2009. If the Hospital fails, as determined solely by the RHC and DHH, to implement the HIS or fully participate in LARHIX, the computer vendor shall transfer upon written notice and to the extent possible the HIS or any portion thereof to a replacement hospital selected by the RHC and DHH.

NOTE 17 - CHARITY CARE

The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$130,973, \$456,696, and \$620,911 in 2011, 2010, and 2009, respectively. The costs related to charity care charges are \$72,799, \$270,399, and \$378,228 in 2011, 2010, and 2009, respectively.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2011, 2010 AND 2009

NOTE 18 - SUBSEQUENT EVENTS

On June 7, 2011, the Hospital entered into a financing arrangement upon purchasing 48 patient beds for a total price of \$255,014.

On September 9, 2011, the Hospital Board accepted the bid as submitted by Alan Adkins Construction Company for construction of the Crowville Health Clinic for \$388,000.

Events have been evaluated through September 23, 2011, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Routine Services:			
Adults and pediatric	\$ 2,736,295	\$ 2,453,720	\$ 2,518,456
Intensive care unit	167,500	93,750	165,000
Swing bed	<u>183,750</u>	<u>77,700</u>	<u>97,650</u>
Total	<u>3,087,545</u>	<u>2,625,170</u>	<u>2,781,106</u>
Other Professional Services:			
Operating room			
Inpatient	474,495	114,767	68,065
Outpatient	<u>1,023,978</u>	<u>648,686</u>	<u>415,326</u>
Total	<u>1,498,473</u>	<u>763,453</u>	<u>483,391</u>
Recovery room			
Inpatient	25,875	6,375	11,550
Outpatient	<u>105,825</u>	<u>55,725</u>	<u>83,175</u>
Total	<u>131,700</u>	<u>62,100</u>	<u>94,725</u>
Anesthesia			
Inpatient	87,655	5,041	33,578
Outpatient	<u>246,619</u>	<u>154,029</u>	<u>150,409</u>
Total	<u>334,274</u>	<u>159,070</u>	<u>183,987</u>
Radiology			
Inpatient	1,104,297	1,077,425	1,431,654
Outpatient	<u>4,438,280</u>	<u>3,636,772</u>	<u>3,141,891</u>
Total	<u>5,542,577</u>	<u>4,714,197</u>	<u>4,573,545</u>
Laboratory			
Inpatient	1,266,997	1,098,767	1,224,218
Outpatient	<u>2,237,158</u>	<u>1,979,589</u>	<u>1,816,437</u>
Total	<u>\$ 3,504,155</u>	<u>\$ 3,078,356</u>	<u>\$ 3,040,655</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Blood			
Inpatient	\$ 223,705	\$ 149,330	\$ 146,520
Outpatient	<u>84,861</u>	<u>73,251</u>	<u>46,680</u>
Total	<u>308,566</u>	<u>222,581</u>	<u>193,200</u>
Respiratory care			
Inpatient	3,374,354	2,463,716	2,815,636
Outpatient	<u>221,878</u>	<u>186,674</u>	<u>138,921</u>
Total	<u>3,596,232</u>	<u>2,650,390</u>	<u>2,954,557</u>
Physical therapy			
Inpatient	40,982	25,019	20,417
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>227</u>
Total	<u>40,982</u>	<u>25,019</u>	<u>20,644</u>
EKG			
Inpatient	188,796	149,638	155,273
Outpatient	<u>273,507</u>	<u>238,317</u>	<u>215,767</u>
Total	<u>462,303</u>	<u>387,955</u>	<u>371,040</u>
Central supply			
Inpatient	548,652	425,128	365,068
Outpatient	<u>690,808</u>	<u>430,016</u>	<u>252,039</u>
Total	<u>1,239,460</u>	<u>855,144</u>	<u>617,107</u>
Pharmacy			
Inpatient	2,369,408	2,128,900	2,146,342
Outpatient	<u>798,757</u>	<u>705,368</u>	<u>465,072</u>
Total	\$ <u>3,168,165</u>	\$ <u>2,834,268</u>	\$ <u>2,611,414</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Intensive outpatient program	\$ <u>773,432</u>	\$ <u>684,419</u>	\$ <u>963,563</u>
Emergency room			
Inpatient	461,516	412,572	402,689
Outpatient	<u>2,641,445</u>	<u>2,577,413</u>	<u>2,144,525</u>
Total	<u>3,102,961</u>	<u>2,989,985</u>	<u>2,547,214</u>
Observation room			
Inpatient	2,725	6,575	13,075
Outpatient	<u>154,500</u>	<u>160,525</u>	<u>100,075</u>
Total	<u>157,225</u>	<u>167,100</u>	<u>113,150</u>
Rural health clinic - outpatient	<u>4,429,049</u>	<u>3,330,199</u>	<u>2,839,226</u>
Ambulance			
Inpatient	182	1,873	3,524
Outpatient	<u>23,497</u>	<u>15,140</u>	<u>27,290</u>
Total	<u>23,679</u>	<u>17,013</u>	<u>30,814</u>
Wound care - outpatient	<u>42,848</u>	<u>-0-</u>	<u>-0-</u>
Private physician office - outpatient	<u>304,700</u>	<u>-0-</u>	<u>-0-</u>
Total Other Professional Services	<u>28,660,781</u>	<u>22,941,249</u>	<u>21,638,232</u>
Gross Patient Service Charges	<u>31,748,326</u>	<u>25,566,419</u>	<u>24,419,338</u>
Allowances and Uncollectibles:			
Contractual adjustments	12,081,346	9,609,988	8,953,568
Provision for bad debts	2,934,466	3,045,597	1,452,698
Charity care and policy discounts	130,973	456,696	620,911
Uncompensated care reimbursement	<u>(712,549)</u>	<u>(1,515,319)</u>	<u>(1,300,381)</u>
Total Allowances and Uncollectibles	<u>14,434,236</u>	<u>11,596,962</u>	<u>9,726,796</u>
Net Patient Service Revenue	\$ <u>17,314,090</u>	\$ <u>13,969,457</u>	\$ <u>14,692,542</u>

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

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Cafeteria sales	\$ 58,287	\$	51,000	\$	58,609
Vending machine commission	2,554		2,492		2,397
Physician office rentals	103,161		113,093		116,027
Medical records abstract fees	16,336		17,137		16,073
Miscellaneous revenue	<u>67,481</u>		<u>35,917</u>		<u>22,500</u>
Total other operating revenue	\$ <u>247,819</u>	\$	<u>219,639</u>	\$	<u>215,606</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Personnel	\$ 51,306	\$ 43,832	\$ 28,509
Administration	1,150,469	1,143,250	1,210,138
Plant operations and maintenance	246,086	216,289	202,813
Housekeeping	148,570	176,778	150,671
Dietary and cafeteria	194,032	190,389	183,194
Purchasing	60,041	68,901	65,557
Pharmacy	50,308	-0-	-0-
Nursing administration	433,322	248,324	114,283
Medical records	270,603	271,531	243,126
Nursing services, acute care	1,281,019	1,071,076	1,011,117
Nursing services, intensive care unit	231,493	224,135	318,446
Operating room	205,006	145,774	152,596
Radiology	394,712	375,237	346,184
Respiratory care	425,809	399,201	362,148
Intensive outpatient program	189,413	205,042	239,201
Emergency room	732,930	639,785	617,782
Rural health clinic	1,317,466	1,084,663	1,088,257
Transportation	37,659	36,971	36,366
Private physician office	<u>423,573</u>	<u>27,239</u>	<u>33,162</u>
Total salaries	<u>7,843,817</u>	<u>6,568,417</u>	<u>6,403,550</u>
Payroll taxes	538,014	499,320	483,277
Health insurance	1,117,155	1,020,075	972,334
Pension plan	86,474	102,182	83,420
Other	<u>97,719</u>	<u>163,935</u>	<u>116,016</u>
Total benefits	<u>1,839,362</u>	<u>1,785,512</u>	<u>1,655,047</u>
Total salaries and benefits	\$ <u>9,683,179</u>	\$ <u>8,353,929</u>	\$ <u>8,058,597</u>

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

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Nursing service	\$ 11,542	\$	(7,077)	\$	7,109
Operating room	200		100		3,497
Anesthesiology	207,177		70,150		129,848
Radiology	523,236		380,876		380,048
Laboratory	897,261		834,941		781,971
Respiratory therapy	6,834		7,142		6,680
Physical therapy	16,920		9,760		8,770
EKG	17,786		-0-		-0-
IOP	18,023		78,000		75,016
Emergency room	679,348		570,500		680,592
Rural health clinic	168,876		191,432		353,704
Private physician office	<u>748</u>		<u>-0-</u>		<u>-0-</u>
 Total professional fees	 \$ <u>2,547,951</u>	\$	 <u>2,135,824</u>	\$	 <u>2,427,235</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Management fees	\$ 37,800	\$ 302	\$ -0-
Miscellaneous service fees	1,192,011	1,061,593	903,422
Legal and accounting	94,599	84,171	57,117
Supplies	368,480	397,355	295,249
Minor equipment	54,625	40,975	33,620
Repairs and maintenance	110,169	121,258	109,544
Utilities	342,913	290,727	375,420
Telephone	114,057	103,979	93,696
Travel	44,489	22,912	37,884
Rentals	399,367	412,932	507,604
Education	44,890	55,356	33,431
Dues and subscriptions	319,357	141,982	160,864
Recruitment and advertising	166,350	39,200	18,065
Miscellaneous	<u>13,658</u>	<u>12,816</u>	<u>50,259</u>
 Total other expenses	 \$ <u>3,302,765</u>	 \$ <u>2,785,558</u>	 \$ <u>2,676,175</u>



LESTER, MILLER & WELLS

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

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

We have audited the financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center"), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2011, 2010, and 2009, and have issued our report thereon dated September 23, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin Medical Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting: 2011-01, 2011-02, 2011-03, 2011-04, 2011-05, 2011-06 and 2011-07. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under Government Auditing Standards.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Lute, Miller & Wells

Certified Public Accountant
Alexandria, Louisiana

September 23, 2011



FRANKLIN MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

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

Compliance:

- Noncompliance issues noted – None

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2011-01 – Draft of Financial Statements

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

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

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

Finding 2011-02 – Medicare and Medicaid Cost Reimbursement

Finding: The Hospital did not record an estimate for the current year Medicare and Louisiana Medicaid cost report settlements. The Hospital under reported income and receivables. The results from the Medicare and Louisiana Medicaid cost reports were receivables of \$620,133.

Recommendation: While it is difficult to calculate an accurate reimbursement in the interim for Medicare and Medicaid cost report receivables and payables, an estimate should be made to approximate the results at least on a quarterly basis.

FRANKLIN MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

Section II. Financial Statement Findings (Continued)

Finding 2011-02 – Medicare and Medicaid Cost Reimbursement (Continued)

Response: Management will implement the recommendation.

Finding 2011-03 – Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

Finding 2011-04 – Capital Leases

Finding: The Hospital entered into capital lease transactions, however the assets and related debt were not recorded.

Recommendation: We recommend recording the assets and related debt on loans and capital lease transactions after the execution of the loan or lease document.

Response: Capital lease transactions have now been properly recorded. Staff has been trained on recognition of operating versus capital leases, and future transactions should be recorded properly.

Finding 2011-05 – Credit Balances

Finding: The credit balance for accounts receivable grew from \$148,000 in 2010 to \$163,572 in 2011.

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

Response: The Hospital has individuals who investigate credit balances and prepare proposed adjustments and patient refunds.

FRANKLIN MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

Section II. Financial Statement Findings (Continued)

Finding 2011-06 – Donated Property

Finding: The Hospital received a contribution of land valued at \$440,000. Assets and non-operating revenue was understated by \$440,000, since the Hospital did not record the donation.

Recommendation: We recommend recording revenue when earned on a monthly basis in accordance with generally accepted accounting principles.

Response: Management will make the necessary entries to record assets and revenue from future donations in accordance with generally accepted accounting principles.

Finding 2011-07 – Prior Year Audit Entries

Finding: The adjusting journal entries proposed from the prior year audit were not recorded in a timely manner.

Recommendation: We recommend recording the adjusting journal entries from the audit each year.

Response: The prior year's entries were recorded when discovered during the current year's audit and will be recorded timely in the future.

Section III. Federal Awards, Findings and Questioned Costs

Not Applicable

Section IV. Management Letter

Not Applicable

FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

Section I. Financial Statement Findings

Finding 2010-01 – Medicare and Medicaid Cost Reimbursement

Fiscal Year Initially Reported: April 30, 2010

Finding: The Hospital over reported income and under reported payables by not including an estimate for Medicare and Medicaid cost reimbursement. The results from the Medicare and Medicaid cost report were payables of \$491,567.

Recommendation: While it is difficult to calculate an accurate reimbursement in the interim for Medicare and Medicaid cost report receivables and payables, an estimate should be made to approximate the results at least on a quarterly basis

Response: Management will implement the recommendation.

Resolution: This matter has not been resolved. See Finding 2011-02.

Finding 2010-02 – Credit Balances

Fiscal Year Initially Reported: April 30, 2008

Finding: The credit balance for accounts receivable grew from \$59,475 at April 30, 2007, to \$114,929 at April 30, 2008.

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

Response: The Hospital does have individuals who investigate credit balances and prepare proposed adjustments and patient refunds. However, during the spring of 2008, the new hospital CFO noted that the adjustments were prepared and posted without an adequate separation of duties or necessary backup for the proposed adjustments. As a result of the transition to improved accounting practices there was a delay in processing adjustments to these credit balances. Currently, the Hospital prepares adjustments and refunds on a timely basis.

Resolution: This matter has not been resolved. See Finding 2011-05.

Finding 2010-03 – Draft of Financial Statements

Fiscal Year Initially Reported: April 30, 2007

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

FRANKLIN MEDICAL CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

Section I. Financial Statement Findings (Continued)

Finding 2010-03 – Draft of Financial Statements (Continued)

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

Response: Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

Resolution: This matter has not been resolved – See finding 2011-01.

Finding 2010-04 – Segregation of Duties

Fiscal Year Initially Reported: April 30, 2007

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

Resolution: This matter has not been resolved. See Finding 2011-03.

Section II. Federal Award Findings and Questioned Costs

Not Applicable

Section III. Management Letter

Not Applicable