

**FRANKLIN GENERAL HOSPITAL**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2004 AND 2003**

**FRANKLIN GENERAL HOSPITAL  
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**FRANKLIN GENERAL HOSPITAL  
ORGANIZATION DATA  
YEAR ENDED JUNE 30, 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>BOARD OF TRUSTEES</b>		
Charlie Brown	Chairperson	2006
Janet Siems	Secretary	2006
Doreen Petersen	Treasurer	2006
Allan Menning	Member	2008
Bruce Harris	Member	2008
Vicki Sukup	Member	2004
Don Wohlford	Member	2004
<b>ADMINISTRATION</b>		
Ronald Baker		Chief Executive Officer
Michelle Craighton		Finance Manager

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Franklin General Hospital  
Hampton, Iowa

We have audited the accompanying primary government financial statements of Franklin General Hospital as of June 30, 2004 and 2003, which collectively comprise the Hospital's basic financial statements as listed in the 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of Franklin General Hospital as of June 30, 2004 and 2003 and the changes in financial position and cash flows thereof for the years then ended, in conformity with U. S. generally accepted accounting principles.

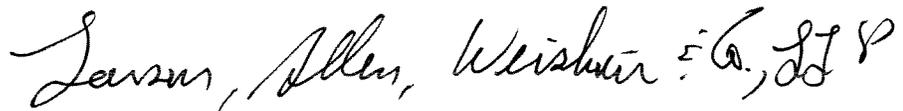
However, the primary government financial statements, because they do not include the financial data of component units of Franklin General Hospital, do not purport to, and do not, present fairly the financial position of Franklin General Hospital, as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Franklin General Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 3, 2004 on our consideration of Franklin General 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.

The management's discussion and analysis on pages 3 through 8 and the budgetary comparison information on page 25 are not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Franklin General Hospital's basic financial statements. The supplementary information from pages 26 to 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 33 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.



**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 3, 2004

**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

This section of the Franklin General Hospital annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 31, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

**Financial Highlights**

- The Hospital's total assets increased \$152,587 or 1.3% in 2004 and increased \$247,087 or 2.1% in 2003.
- The Hospital's total liabilities decreased \$28,945 or 1.0% in 2004 and decreased \$560,224 or 15.2% in 2003.
- The Hospital's net assets increased \$181,532 or 2.0% in 2004 and increased \$807,311 or 9.8% in 2003.
- The Hospital reported negative operating income of \$626,618 in 2004 and \$87,091 in 2003. This represents a decrease of \$539,527 in 2004 and a decrease of \$367,136 in 2003.

**The Balance Sheets and Statement of Revenues, Expenses and Changes in Net Assets**

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheets are a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenues and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flows. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Additional supplementary information to the above statements is provided in:

- Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis)
- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenues
- Schedules of Expenses
- Schedules of Aged Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Comparative Statistics

There was one significant change in the Hospital's accounting policies for the year ended June 30, 2004. The amount to qualify an item as a capital expenditure increased from \$1,000 to \$5,000.

**Financial Analysis of the Hospital**

The information from the Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Balances, and the Statements of Cash Flows has been summarized in the following tables.

Table 1 reports the changes in net assets of the Hospital. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as changes in the economic environment of Hampton, Franklin County, and the surrounding areas.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current Assets	\$ 3,508,296	\$ 2,983,950	\$ 2,886,350
Noncurrent Cash and Investments	1,405,818	1,356,375	1,289,266
Capital Assets, Net	6,551,094	7,015,319	6,954,379
Succeeding Year Property Tax Receivable	719,331	720,271	713,547
Other Assets	156,427	112,464	97,750
<b>Total Assets</b>	<u>\$ 12,340,966</u>	<u>\$ 12,188,379</u>	<u>\$ 11,941,292</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,056,810	\$ 1,008,086	\$ 1,501,913
Long-Term Debt (Less Current Maturities)	1,299,811	1,377,184	1,451,076
Other Liabilities	740,927	741,223	733,728
<b>Total Liabilities</b>	<u>3,097,548</u>	<u>3,126,493</u>	<u>3,686,717</u>
<b>Total Net Assets</b>	<u>9,243,418</u>	<u>9,061,886</u>	<u>8,254,575</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 12,340,966</u>	<u>\$ 12,188,379</u>	<u>\$ 11,941,292</u>
<b>Current Ratio</b>	3.32	2.96	1.92

**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Several asset and liability categories changed significantly during 2004 and 2003. Current Assets increased \$524,346 or 17.6% in 2004 and increased \$97,600 or 3.4% in 2003. Other Assets increased \$43,963 or 39.1% in 2004 and increased \$14,714 or 15.1% in 2003. Total Current Liabilities increased \$48,724 or 4.8% in 2004 and decreased \$493,827 or 32.9% in 2003.

The current ratio (current assets divided by current liabilities) for 2004 improved to 3.32, compared to 2.96 and 1.92 in 2003 and 2002 respectively. The current ratio is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities; a high ratio number is preferred.

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues (Net of Provision for Bad Debt)	\$ 9,110,078	\$ 9,274,628	\$ 9,055,310
Expenses	<u>9,736,696</u>	<u>9,361,719</u>	<u>8,775,265</u>
Operating Income (Loss)	(626,618)	(87,091)	280,045
Due (To) From Affiliated Organization	<u>20,410</u>	<u>-</u>	<u>(140,022)</u>
Adjusted Operating Income (Loss)	(606,208)	(87,091)	140,023
Non-Operating Income (Expenses)	<u>805,499</u>	<u>865,239</u>	<u>842,861</u>
Excess of Revenues Over Expenses	<u>\$ 199,291</u>	<u>\$ 778,148</u>	<u>\$ 982,884</u>
Net Assets Beginning of Year	\$ 9,061,886	\$ 8,254,575	\$ 7,191,627
Excess of Revenues Over Expenses	199,291	778,148	982,884
Capital Contributions and Grants	17,008	58,920	107,608
Foundation Expenses	<u>(34,767)</u>	<u>(29,757)</u>	<u>(27,544)</u>
Net Assets End of Year	<u>\$ 9,243,418</u>	<u>\$ 9,061,886</u>	<u>\$ 8,254,575</u>

Net patient service revenue made up 97.5% in 2004 and 98.4% in 2003 of the Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payers. Table 3 below shows the contractual adjustments that were recognized:

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 11,551,294	\$ 11,459,654	\$ 10,962,753
Contractual Adjustments and Provisions for Bad Debt	<u>(2,666,554)</u>	<u>(2,339,768)</u>	<u>(2,041,778)</u>
Net Patient Service Revenue	<u>\$ 8,884,740</u>	<u>\$ 9,119,886</u>	<u>\$ 8,920,975</u>
Contractual Adjustments as a Percent of Revenues	<u>23.08%</u>	<u>20.42%</u>	<u>18.62%</u>

**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Total Operating Revenues decreased \$164,550 or 1.8% in 2004 and increased \$219,318 or 2.5% in 2003. Patient services revenues are listed by department on pages 26-27 of the audited financial report. Total operating expenses increased \$374,977 or 4.0% in 2004 and increased \$586,454 or 6.7% in 2003. Operating expenses are listed by department on pages 29-30 of the audited financial report.

Other Operating Revenues increased \$70,596 or 45.7% in 2004 and increased \$20,407 or 15.2% in 2003. The increase for both years is due to grant revenue. Table 4 shows the detail for this line item.

**Table 4: Other Operating Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Clinic Rent Income	\$ 32,525	\$ 38,010	\$ 33,102
Pharmacy Rent	14,214	14,214	14,214
Dietary	31,080	37,161	41,048
Grant Revenue	116,128	50,966	16,332
Physical Therapy Contracts	6,750	6,490	7,528
Medical Record Transcripts	2,117	2,018	1,823
Miscellaneous	22,524	5,883	20,288
Total Other Operating Revenues	<u>\$ 225,338</u>	<u>\$ 154,742</u>	<u>\$ 134,335</u>

**Hospital Statistical Data**

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes. Acute, Swing Bed, and Nursing Facility patient days all recorded significant decreases in 2004. Acute patient days decreased 115 or 13.1% in 2004 and decreased 185 or 17.4% in 2003. Swing Bed patient days decreased 287 or 21.6% in 2004 after increasing 194 or 17.1% in 2003. Nursing Facility patient days decreased 806 or 4.6% in 2004 and decreased 541 or 3.0% in 2003.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	768	883	1,068
Swing Bed	1,046	1,333	1,139
Nursing Facility	16,937	17,743	18,284
Total	<u>18,751</u>	<u>19,959</u>	<u>20,491</u>
<b>Admissions</b>			
Acute	227	235	300
Swing Bed	111	110	96
Nursing Facility	46	44	35
Total	<u>384</u>	<u>389</u>	<u>431</u>
<b>Discharges</b>			
Acute	224	238	297
Swing Bed	112	107	102
Nursing Facility	49	44	36
Total	<u>385</u>	<u>389</u>	<u>435</u>

**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Table 5: Statistical Data (Continued)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Average Length of Stay</b>			
Acute	3.43	3.71	3.60
Swing Bed	9.34	12.46	11.17
<b>Average Daily Census</b>			
Acute	2.10	2.42	2.93
Swing Bed	2.86	3.65	3.12
Nursing Facility	46.40	48.61	50.09
<b>Occupancy Percentage</b>			
Acute (Based on 25 Beds)	8.42%	9.68%	11.70%

**Cash Flows**

The Hospital had positive cash flow in 2004 due to the amount of cash provided by non-capital financing activities as shown in the Statement of Cash Flows. In 2004, the Hospital's cash and cash equivalents increased by \$227,236 or 16.9%.

**Capital Assets**

At June 30, 2004 the Hospital had \$6,551,094 invested in capital assets net of accumulated depreciation. The Hospital expended \$265,931 to purchase new equipment in 2004 and \$722,848 in 2003.

**Long Term Debt**

Table 6 shows a summary of the Hospital's long-term debt outstanding.

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Corn Belt Power	\$ 170,488	\$ 193,141	\$ 214,715
Franklin REC	130,000	150,000	170,000
Franklin County Banker's Association	<u>1,076,696</u>	<u>1,107,935</u>	<u>1,137,393</u>
 Total Long Term Debt	 <u>\$ 1,377,184</u>	 <u>\$ 1,451,076</u>	 <u>\$ 1,522,108</u>

The Hospital's long-term debt decreased \$73,893 in 2004 and decreased \$71,031 in 2003. Additional detail regarding the long-term debt is listed on page 20 of the audited financial report.

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**FRANKLIN GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Summary Comments**

The Hospital's financials were challenged this year with decreasing patient statistics and increasing expenses. Administration is addressing these financial issues and is working on ways to grow our business, manage our expenses, and continue to update the Hospital facility and its equipment.

**Contacting the Hospital**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Ron Baker, CEO, Franklin General Hospital, 1720 Central Avenue East, Hampton, Iowa 50441-1859.

**FRANKLIN GENERAL HOSPITAL  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	2004	2003
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,568,710	\$ 1,341,474
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$225,672; 2003, \$271,856)	1,419,078	1,380,791
Accounts Receivable - Affiliated Organizations	34,550	14,296
County Tax Receivable	8,467	10,543
Other Receivables	67,381	27,503
Inventories	96,791	90,936
Prepaid Expenses	66,584	80,428
Due from Third Party Payors	246,735	37,979
Total Current Assets	3,508,296	2,983,950
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Restricted by Debt Agreements	151,747	96,839
Restricted by Resident Trust Agreement	4,096	3,452
Internally Designated for Capital Acquisition	1,249,975	1,254,204
Internally Designated for Health Benefits	-	1,880
Total Noncurrent Cash and Investments	1,405,818	1,356,375
<b>CAPITAL ASSETS, NET</b>	6,551,094	7,015,319
<b>OTHER ASSETS</b>		
Succeeding Year Property Tax Receivable	719,331	720,271
Investment in Affiliated Organization	82,152	30,189
Physician Advances	74,275	82,275
Total Other Assets	875,758	832,735
Total Assets	\$ 12,340,966	\$ 12,188,379

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 219,172	\$ 181,558
Accrued Expenses	760,265	752,635
Current Maturities of Long-Term Debt	<u>77,373</u>	<u>73,893</u>
Total Current Liabilities	1,056,810	1,008,086
<b>LONG-TERM DEBT</b> , Less Current Maturities	1,299,811	1,377,184
<b>OTHER LIABILITIES</b>		
Deferred Revenue For Succeeding Year Property Tax Receivable	719,331	720,271
Lease Deposit	17,500	17,500
Residents' Cash Fund	<u>4,096</u>	<u>3,452</u>
Total Other Liabilities	740,927	741,223
Total Liabilities	3,097,548	3,126,493
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	5,173,910	5,564,242
Restricted		
By Debt Agreement	151,747	96,839
Unrestricted	<u>3,917,761</u>	<u>3,400,805</u>
Total Net Assets	<u>9,243,418</u>	<u>9,061,886</u>
Total Liabilities and Net Assets	<u>\$ 12,340,966</u>	<u>\$ 12,188,379</u>

**FRANKLIN GENERAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Net Patient Service Revenues (Net of Provision for Bad Debt of \$274,258 in 2004 and \$303,110 in 2003)	\$ 8,884,740	\$ 9,119,886
Other Revenue	225,338	154,742
Total Revenues	9,110,078	9,274,628
<b>EXPENSES</b>		
Salaries and Wages	4,709,199	4,542,845
Employee Benefits	1,006,681	927,068
Professional Fees	808,292	972,832
Utilities	197,302	172,521
Management, Legal, and Accounting Fees	211,791	151,598
Insurance	103,366	90,861
Supplies and Miscellaneous	2,114,268	1,983,997
Depreciation	577,026	510,632
Interest	8,771	9,365
Total Expenses	9,736,696	9,361,719
<b>OPERATING INCOME (LOSS)</b>	(626,618)	(87,091)
<b>DUE (TO) FROM AFFILIATED ORGANIZATION</b>	20,410	-
<b>ADJUSTED OPERATING INCOME (LOSS)</b>	(606,208)	(87,091)
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Income on Investment in Affiliated Organization	9,920	30,165
Tax Apportionments	744,298	748,157
Contributions	18,123	13,015
Interest Income	48,286	54,854
Gain/(Loss) on Sale of Property and Equipment	(1,352)	29,300
Income (Loss) from Franklin Prairie Apartments	(34,152)	(25,068)
Miscellaneous	20,376	14,816
Non-Operating Income	805,499	865,239
<b>EXCESS OF REVENUES OVER EXPENSES</b>	199,291	778,148
Capital Contributions and Grants	17,008	58,920
Foundation Expenses	(34,767)	(29,757)
Increase in Net Assets	181,532	807,311
Net Assets Beginning of Year	9,061,886	8,254,575
Net Assets End of Year	\$ 9,243,418	\$ 9,061,886

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 8,637,697	\$ 8,589,060
Cash Paid to Employees	(5,708,250)	(5,472,623)
Cash Paid to Suppliers	(3,427,574)	(3,439,067)
Interest Payments on Long-Term Debt	(8,771)	(9,365)
Other Receipts and Payments, Net	225,338	154,742
Net Cash Used by Operating Activities	(281,560)	(177,253)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Restricted and Unrestricted Contributions	35,131	71,935
County Taxes	744,298	748,157
Transfer to Franklin General Hospital Foundation	(34,767)	(29,757)
Income from Franklin Prairie Apartments	117,126	126,210
Miscellaneous Non-Operating Revenue	20,376	14,816
Net Cash Provided by Non-Capital Financing Activities	882,164	931,361
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Property and Equipment	(265,931)	(722,848)
Proceeds from the Sale of Property and Equipment	500	29,300
Payments on Long Term Debt	(73,893)	(71,033)
Net Cash Used by Capital and Related Financing Activities	(339,324)	(764,581)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in Noncurrent Cash and Investments	(49,443)	(67,109)
Income on Investment from Affiliated Organization	9,920	30,165
Increase (Decrease) in Investment in Affiliated Organization	(42,043)	20,001
Interest Earned on Investments	47,522	54,854
Net Cash (Used) Provided by Investing Activities	(34,044)	37,911
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	227,236	27,438
Cash and Cash Equivalents - Beginning	1,341,474	1,314,036
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 1,568,710	\$ 1,341,474

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (626,618)	\$ (87,091)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	577,026	510,632
Decrease (Increase) in -		
Patient Receivables	(38,287)	(123,322)
County Tax Levy Receivable	2,076	1,231
Accounts Receivable - Other	(49,034)	118,740
Accounts Receivable - Affiliated Organizations	156	(9,558)
Inventories	(5,855)	(3,403)
Prepaid Expenses	13,844	(46,036)
Third Party Payor Settlement Receivable	(208,756)	(37,979)
Other Assets	8,000	(4,550)
Increase (Decrease) in -		
Accounts Payable	37,614	(124,453)
Accrued Expenses	7,630	(2,710)
Third Party Payor Settlements Payable	-	(369,525)
Other Liabilities	644	771
Net Cash Used by Operating Activities	\$ (281,560)	\$ (177,253)

*See accompanying Notes to Financial Statements.*

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Hospital is the county hospital of Franklin County, Iowa organized under Chapter 347, Code of Iowa. Services are provided primarily to residents of Franklin County and surrounding counties in north central Iowa. The Hospital operates clinics in Hampton, Latimer, Dows, and Dumont. The Hospital also owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company.

**A. Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no component units, which meet the Governmental Accounting Standards Board criteria, except for Franklin General Hospital Foundation, which the Hospital has elected to exclude from these financial statements.

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2002. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentation of net assets, and the inclusion of management's discussion and analysis.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**D. Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, the Hospital considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased.

*Patient Receivables* – Patient Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third party payors. The Hospital provides an allowance for uncollectible accounts based on the allowance method using managements' judgment. Patients are not required to provide collateral for services rendered. Payments for services are generally required within 30 days. Accounts past due 90 days are individually analyzed for collectibility. Accounts deemed uncollectible are written off on a monthly basis.

*Inventory* - Inventory is valued at cost using the first-in, first-out method.

*Noncurrent Cash and Investments* – Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

*Capital Assets, Net* – Capital Assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Succeeding Year Property Tax Receivable* - Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*Deferred Revenue For Succeeding Year Property Receivable* - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

*Net Assets* - Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted 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. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

**E. Contributions**

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

**F. Restricted Resources**

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**G. Operating Revenues and Expenses**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services under the Master Affiliation Agreement are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating income and expenses.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Net Patient Service Revenue**

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. Medicare cost reports through June 30, 2001 and Medicaid cost reports through June 30, 2001 have been audited and settled by the intermediary.

**I. 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. Charity care provided during the years ending June 30, 2004 and 2003 was \$3,139 and \$12,478, respectively.

**NOTE 2 NET PATIENT SERVICE REVENUES**

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

**Medicare**

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

**Medicaid**

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

**Other**

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 2 NET PATIENT SERVICE REVENUES (CONTINUED)**

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 11,551,294	\$ 11,459,654
Contractual Adjustments		
Medicare	(1,556,752)	(1,675,808)
Medicaid	(344,700)	(93,657)
Provision for Bad Debt	(274,258)	(303,110)
Other	(490,844)	(267,193)
Total Contractual Adjustments and Bad Debts	<u>(2,666,554)</u>	<u>(2,339,768)</u>
Net Patient Service Revenues	<u>\$ 8,884,740</u>	<u>\$ 9,119,886</u>

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 838,802	\$ 1,080,065
Receivable from Medicare	603,214	468,801
Receivable from Medicaid	202,734	103,781
Total Patient Receivables	<u>1,644,750</u>	<u>1,652,647</u>
Less Allowance for Doubtful Accounts	(225,672)	(271,856)
Patient Receivables, Net	<u>\$ 1,419,078</u>	<u>\$ 1,380,791</u>

**NOTE 4 DEPOSITS AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2004 and 2003 were entirely covered by Federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1, which means that the investment are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 2,971,007</u>	<u>\$ 2,748,945</u>
Carrying Amount	<u>\$ 2,974,528</u>	<u>\$ 2,697,849</u>

The carrying amount of deposits shown above is included in the Hospital's balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Deposits	<u>\$ 2,974,528</u>	<u>\$ 2,697,849</u>
	<u>\$ 2,974,528</u>	<u>\$ 2,697,849</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 1,568,710	\$ 1,341,474
Noncurrent Cash and Investments		
Restricted by Debt Agreements	151,747	96,839
Restricted by Resident Trust Agreement	4,096	3,452
Internally Designated for Capital Acquisition	1,249,975	1,254,204
Internally Designated for Health Benefits	-	1,880
	<u>\$ 2,974,528</u>	<u>\$ 2,697,849</u>

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 5 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	June 30, 2003	Additions	(Retirements)	June 30, 2004
<b>Capital Assets</b>				
Land and Land Improvements	\$ 506,229	\$ -	\$ -	\$ 506,229
Building	6,938,474	-	-	6,938,474
Fixed Equipment	2,902,290	8,032	(10,785)	2,899,537
Major Movable Equipment	2,684,393	220,299	(477,877)	2,426,815
Construction in Progress	2,936	82,709	(45,110)	40,535
<b>Totals</b>	<b>\$ 13,034,322</b>	<b>\$ 311,040</b>	<b>\$ (533,772)</b>	<b>\$ 12,811,590</b>
<b>Accumulated Depreciation</b>				
Land Improvements	\$ 219,552	\$ 14,226	\$ -	\$ 233,778
Building	2,222,822	345,530	-	2,568,352
Fixed Equipment	1,510,267	118,305	(10,785)	1,617,787
Major Movable Equipment	2,066,362	250,244	(476,027)	1,840,579
<b>Totals</b>	<b>\$ 6,019,003</b>	<b>\$ 728,305</b>	<b>\$ (486,812)</b>	<b>\$ 6,260,496</b>
	<b>\$ 7,015,319</b>			<b>\$ 6,551,094</b>
	June 30, 2002	Additions	(Retirements)	June 30, 2003
<b>Capital Assets</b>				
Land and Land Improvements	\$ 456,603	\$ 49,626	\$ -	\$ 506,229
Building	6,656,267	282,207	-	6,938,474
Fixed Equipment	2,827,432	75,675	(817)	2,902,290
Major Movable Equipment	2,503,146	314,661	(133,414)	2,684,393
Construction in Progress	2,255	382,124	(381,443)	2,936
<b>Totals</b>	<b>\$ 12,445,703</b>	<b>\$ 1,104,293</b>	<b>\$ (515,674)</b>	<b>\$ 13,034,322</b>
<b>Accumulated Depreciation</b>				
Land Improvements	\$ 206,997	\$ 12,555	\$ -	\$ 219,552
Building	1,893,072	329,750	-	2,222,822
Fixed Equipment	1,396,852	114,232	(817)	1,510,267
Major Movable Equipment	1,994,403	205,373	(133,414)	2,066,362
<b>Totals</b>	<b>\$ 5,491,324</b>	<b>\$ 661,910</b>	<b>\$ (134,231)</b>	<b>\$ 6,019,003</b>
	<b>\$ 6,954,379</b>			<b>\$ 7,015,319</b>

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 LONG-TERM DEBT**

Summaries of long-term debt for the years ended June 30, 2004 and 2003 are as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 193,141	\$ -	\$ (22,653)	\$ 170,488	\$ 23,837
Non-Interest Bearing Note, FREC	150,000	-	(20,000)	130,000	20,000
Promissory Note, FCBA	1,107,936	-	(31,240)	1,076,696	33,536
Total Long-Term Debt	<u>\$ 1,451,077</u>	<u>\$ -</u>	<u>\$ (73,893)</u>	<u>\$ 1,377,184</u>	<u>\$ 77,373</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 214,715	\$ -	\$ (21,574)	\$ 193,141	\$ 22,653
Non-Interest Bearing Note, FREC	170,000	-	(20,000)	150,000	20,000
Promissory Note, FCBA	1,137,393	-	(29,457)	1,107,936	31,240
Total Long-Term Debt	<u>\$ 1,522,108</u>	<u>\$ -</u>	<u>\$ (71,031)</u>	<u>\$ 1,451,077</u>	<u>\$ 73,893</u>

**Promissory Note, Corn Belt Power**

The Hospital issued a 5% Promissory Note Payable in the amount of \$250,000 to Corn Belt Power Cooperative on October 10, 2000 to assist in the financing of the assisted living facility. The note is payable in 120 monthly installments of \$2,652 from November 6, 2001 through October 6, 2010.

**Non-Interest Bearing Note, FREC**

The Hospital issued a non-interest bearing Note Payable in the amount of \$200,000 to Franklin Rural Electric Cooperative on January 1, 2001 to assist in the financing of the assisted living facility. This amount was obtained by Franklin Rural Electric Cooperative from the U.S. Department of Agriculture to be used for economic development purposes. The note is payable in 20 semi-annual installments of \$10,000 starting July 1, 2001 through January 1, 2011.

**Promissory Note, FCBA**

The Hospital issued a 6.52% Promissory Note Payable in the amount of \$1,150,000 to Franklin County Banker's Association on August 27, 2001 to assist in the financing of the assisted living facility. The note is payable in 240 monthly installments of \$8,563 from March 15, 2002, through February 15, 2022.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long-Term Debt	
	Principal	Interest
2005	\$ 77,373	\$ 77,202
2006	80,845	73,729
2007	84,532	70,043
2008	88,263	66,311
2009	92,588	61,986
2010-2014	315,818	249,761
2015-2019	385,057	146,654
2020-2024	252,708	23,526
	<u>\$ 1,377,184</u>	<u>\$ 769,212</u>

**NOTE 7 OTHER ASSETS**

**Investment in Affiliated Organization**

The Hospital has invested in a joint venture of Mobile Radiology, LLC as a 40% partner, and shares any income or loss. In 2004 and 2003, the Hospital received distributions of \$34,094 and \$20,000, respectively. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$9,920 and \$30,165 in 2004 and 2003, respectively. In addition, the Hospital made a capital contribution of \$76,138 to the joint venture for the purchase of new radiology equipment during the year ended June 30, 2004. The financial statements of the joint venture are available upon request from Mobile Radiology, LLC.

**Physician Advances**

Other assets also consist of advances to physicians relating to education loans. If the physician leaves before the entire loan is forgiven, the physician will have to repay the remaining balance. These advances are being amortized over a period of four years.

**NOTE 8 PENSION AND RETIREMENT BENEFITS**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 8 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$236,000, \$251,000, and \$248,000, respectively, equal to the required contributions for each year.

**NOTE 9 RELATED ORGANIZATION**

Affiliated Organizations –

**Master Affiliation Agreement**

Franklin General Hospital (FGH) operates under a Master Affiliation Agreement with Mercy Medical Center - North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Franklin County and the North Central Iowa region. As a part of the Master Affiliation Agreement, FGH entered into a professional services agreement with MMC-NI whereby MMC-NI provides physician medical services. Amounts paid to MMC-NI for the provision of these services amounted to \$395,808 and \$397,211 for the years ended June 30, 2004 and 2003, respectively.

Operating gains and losses from the consolidated operations of the Hospital services and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. For the year ended June 30, 2004 the Hospital has recorded a receivable in accordance with the Master Affiliation Agreement for losses shared by MMC-NI in the amount of \$20,410 and is included in accounts receivable – affiliated organizations. No operating losses were allocated by MMC-NI and the Hospital for the year ended June 30, 2003.

**Management and Other Services**

The Hospital has a contractual arrangement with MMC-NI, under which MMC-NI provides an administrator, management consultation, and other services to Franklin General Hospital.

The arrangement does not alter the authority or responsibility of the Board of Trustees of Franklin General Hospital. Expenses for the management and other services received were \$328,566 and \$382,468 for the years ended June 30, 2004 and 2003, respectively.

**Due to and from Affiliated Organization**

As of June 30, 2004 and 2003, the Hospital's records reflect a due to MMC-NI of \$88,137 and \$53,530, respectively, for the various services provided and is included in accounts payable on the balance sheet.

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 9 RELATED ORGANIZATION (CONTINUED)**

**Franklin General Hospital Foundation**

The Foundation is organized under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A Code of Iowa, as amended, and is organized and operated exclusively and irrevocably for educational, charitable, and scientific purposes. Franklin General Hospital is the sole corporate member of Franklin General Hospital Foundation. The Hospital has elected not to include the financial statements of the Foundation in the Hospital financial statements, which does not conform to U.S. generally accepted accounting principles.

During the years ended June 30, 2004 and 2003, the Hospital recorded transfers to the Foundation of \$34,767 and \$29,757. These amounts represent expenses paid by the Hospital on behalf of the Foundation. Also during the years ended June 30, 2004 and 2003, the Hospital received \$35,131 and \$71,935 from the Foundation.

A summary of the Foundation's assets, liabilities, and net assets as of June 30, 2004 and 2003 and results of operations, and changes in net assets for the years then ended follows:

	June 30,	
	2004	2003
Assets	\$ 602,147	\$ 561,916
Liabilities	\$ 35,459	\$ 39,502
Net Assets	566,688	522,414
Total Liabilities and Net Assets	\$ 602,147	\$ 561,916
Revenues	\$ 82,493	\$ 406,219
Expenses	72,986	111,000
Excess (Deficit) of Revenues over Expenses	9,507	295,219
Beginning Net Assets	522,414	197,438
Transfer from Franklin General Hospital	34,767	29,757
Ending Net Assets	\$ 566,688	\$ 522,414

**Franklin Prairie Apartments**

The Hospital owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company. The lease calls for monthly rent payments of \$17,500 through September 2006. Future minimum rent payments to be received are as follows:

2005	\$ 210,000
2006	210,000
2007	52,500

**FRANKLIN GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**Malpractice Insurance**

The Hospital's malpractice insurance is a claims made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

**Hospital Risk Management**

The Hospital is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

## REQUIRED SUPPLEMENTARY INFORMATION

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**FRANKLIN GENERAL HOSPITAL  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
AND CHANGED IN NET ASSETS  
BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED JUNE 30, 2004**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 744,298	\$ -	\$ 744,298	\$ 720,271	\$ 24,027
Estimated Other Revenues/Receipts	<u>9,208,697</u>	<u>(115,087)</u>	<u>9,093,610</u>	<u>9,519,128</u>	<u>(425,518)</u>
	9,952,995	(115,087)	9,837,908	10,239,399	(401,491)
Expenses/Disbursements	<u>9,771,463</u>	<u>(160,791)</u>	<u>9,610,672</u>	<u>10,049,863</u>	<u>(439,191)</u>
Net	181,532	45,704	227,236	189,536	37,700
Balance Beginning of Year	<u>9,061,886</u>	<u>(7,720,412)</u>	<u>1,341,474</u>	<u>2,459,682</u>	<u>(1,118,208)</u>
Balance End of Year	<u>\$ 9,243,418</u>	<u>\$ (7,674,708)</u>	<u>\$ 1,568,710</u>	<u>\$ 2,649,218</u>	<u>\$ (1,080,508)</u>

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following the required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

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## OTHER SUPPLEMENTARY INFORMATION

**FRANKLIN GENERAL HOSPITAL  
SUPPLEMENTARY SCHEDULES OF NET  
PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 598,923	\$ 647,026
Swing Bed	239,554	281,139
Nursing Facility	1,706,793	1,688,867
Total	<u>2,545,270</u>	<u>2,617,032</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	598,306	642,181
Anesthesiology	225,262	213,149
Radiology	1,300,729	1,293,411
Laboratory	1,547,336	1,569,114
Respiratory Therapy	443,752	378,413
Physical Therapy	282,897	287,267
Speech Therapy	13,744	89,628
Occupational Therapy	47,198	-
Enterostomal Therapy	25,376	-
Electrocardiology	76,665	97,201
Cardiac Rehab	55,996	44,861
Medical and Surgical Supplies	543,227	571,629
Pharmacy	673,115	670,368
Infusion Therapy	62,239	56,094
Clinics	2,212,859	2,157,141
Emergency Room	490,332	373,880
Ambulance	410,130	410,764
Total	<u>9,009,163</u>	<u>8,855,101</u>
Charity Care	<u>(3,139)</u>	<u>(12,479)</u>
Total Patient Service Revenues	11,551,294	11,459,654
Adjustments to Patient Services Revenues	<u>(2,666,554)</u>	<u>(2,339,768)</u>
Net Patient Service Revenues	<u>\$ 8,884,740</u>	<u>\$ 9,119,886</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 374,433	\$ 414,049	\$ 224,490	\$ 232,977
239,554	281,139	-	-
1,706,793	1,688,867	-	-
<u>2,320,780</u>	<u>2,384,055</u>	<u>224,490</u>	<u>232,977</u>
26,581	46,975	571,725	595,206
16,008	24,727	209,254	188,422
59,842	78,778	1,240,887	1,214,633
144,099	219,601	1,403,237	1,349,513
198,530	231,313	245,222	147,100
88,276	120,999	194,621	166,268
2,721	24,819	11,023	64,809
23,341	-	23,857	-
332	-	25,044	-
4,426	11,764	72,239	85,437
-	-	55,996	44,861
63,399	92,240	479,828	479,389
246,165	331,187	426,950	339,181
-	-	62,239	56,094
-	-	2,212,859	2,157,141
3,570	15,865	486,762	358,015
5,541	6,177	404,589	404,587
<u>882,831</u>	<u>1,204,445</u>	<u>8,126,332</u>	<u>7,650,656</u>
<u>\$ 3,203,611</u>	<u>\$ 3,588,500</u>	<u>\$ 8,350,822</u>	<u>\$ 7,883,633</u>

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**FRANKLIN GENERAL HOSPITAL  
SUPPLEMENTARY SCHEDULES OF ADJUSTMENTS TO NET PATIENT  
SERVICE REVENUES AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 1,556,752	\$ 1,675,808
Contractual Adjustments - Medicaid	344,700	93,657
Provision for Bad Debt	274,258	303,110
Other Allowances and Adjustments	490,844	267,193
 Total Adjustments	 \$ 2,666,554	 \$ 2,339,768
<b>OTHER REVENUES</b>		
Clinic Rent Income	\$ 32,525	\$ 38,010
Pharmacy Rent	14,214	14,214
Dietary	31,080	37,161
Grant Revenue	116,128	50,966
Physical Therapy Contracts	6,750	6,490
Medical Record Transcripts	2,117	2,018
Miscellaneous	22,524	5,883
 Total Other Revenues	 \$ 225,338	 \$ 154,742

**FRANKLIN GENERAL HOSPITAL  
SUPPLEMENTARY SCHEDULES OF EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Employee Benefits	-	-
Administrative and General	279,580	272,014
Marketing	22,009	23,963
Operation of Plant	113,525	102,757
Laundry and Linen	16,187	14,990
Housekeeping	111,997	100,584
Dietary	187,884	194,295
Central Sterile	48,792	58,034
Nursing Administration	102,585	94,622
Purchasing	32,165	29,714
Medical Records	113,365	103,538
Social Services	51,131	44,823
Medical and Surgical	658,448	632,213
Nursing Facility	865,281	811,772
Operating Room	98,750	91,502
Anesthesiology	-	-
Radiology	185,292	151,205
Laboratory	191,203	189,171
Respiratory Therapy	8,770	8,508
Physical Therapy	150,877	140,961
Occupational Therapy	-	-
Speech Therapy	-	-
Enterostomal Therapy	-	-
Electrocardiology	7,654	8,340
Central Supply	-	-
Pharmacy	-	-
Cardiac Rehab	24,939	14,768
Infusion Therapy	6,974	9,151
Clinics	1,253,847	1,289,466
Emergency Room	65,344	51,937
Ambulance	99,035	91,502
Community Education	13,565	13,015
Interest	-	-
TOTAL	<u>\$ 4,709,199</u>	<u>\$ 4,542,845</u>

OTHER		TOTAL	
2004	2003	2004	2003
\$ 326,783	\$ 305,259	\$ 326,783	\$ 305,259
250,243	205,373	250,243	205,373
1,006,681	927,068	1,006,681	927,068
609,826	560,082	889,406	832,096
22,866	20,428	44,875	44,391
324,336	317,604	437,861	420,361
97,495	97,447	113,682	112,437
19,776	18,081	131,773	118,665
183,064	156,934	370,948	351,229
1,909	1,424	50,701	59,458
3,794	4,937	106,379	99,559
3,318	738	35,483	30,452
24,239	22,122	137,604	125,660
1,250	1,887	52,381	46,710
38,092	52,855	696,540	685,068
36,911	28,206	902,192	839,978
79,498	71,526	178,248	163,028
104,201	97,589	104,201	97,589
393,849	437,188	579,141	588,393
282,590	270,514	473,793	459,685
20,991	19,138	29,761	27,646
7,855	9,283	158,732	150,244
31,529	31,303	31,529	31,303
6,978	15,099	6,978	15,099
6,006	-	6,006	-
7,675	7,823	15,329	16,163
160,743	156,881	160,743	156,881
245,350	227,628	245,350	227,628
11,740	5,216	36,679	19,984
566	242	7,540	9,393
421,503	470,364	1,675,350	1,759,830
210,689	200,995	276,033	252,932
76,161	68,165	175,196	159,667
219	110	13,784	13,125
8,771	9,365	8,771	9,365
<u>\$ 5,027,497</u>	<u>\$ 4,818,874</u>	<u>\$ 9,736,696</u>	<u>\$ 9,361,719</u>

**FRANKLIN GENERAL HOSPITAL  
SUPPLEMENTARY SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE  
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital)	\$ 994,523	52.53 %	\$ 994,302	51.84 %
31-60 Days	297,877	15.74	350,003	18.25
61-90 Days	171,572	9.06	114,749	5.98
91 Days and Over	429,135	22.67	458,948	23.93
Total Accounts Receivable	<u>\$ 1,893,107</u>	<u>100.00 %</u>	<u>\$ 1,918,002</u>	<u>100.00 %</u>
<b>ALLOWANCES</b>				
Contractual -				
Medicare	\$ 175,753		\$ 212,247	
Medicaid & Other	72,604		53,108	
Doubtful Accounts	<u>225,672</u>		<u>271,856</u>	
Net Accounts Receivable	<u>\$ 1,419,078</u>		<u>\$ 1,380,791</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 25,093</u>		<u>\$ 25,816</u>	
Days of Net Revenue in net Accounts Receivable at Year End	<u>57</u>		<u>53</u>	

Analysis of Allowance for Doubtful Accounts	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 271,856		\$ 241,578	
Add:				
Provision for Doubtful Accounts	274,258	2.99 %	303,110	3.92 %
Recoveries Previously Written Off	<u>125,404</u>	1.37 %	<u>94,919</u>	1.23 %
	399,662		398,029	
Deduct:				
Accounts Written Off	<u>(445,846)</u>	(4.87)%	<u>(367,751)</u>	(4.76)%
Ending Balance	<u>\$ 225,672</u>		<u>\$ 271,856</u>	

**FRANKLIN GENERAL HOSPITAL  
 SUPPLEMENTARY SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
 YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>INVENTORIES</b>		
Medical / Surgical	\$ 10,374	\$ 9,071
Laboratory	29,948	26,259
Pharmacy	56,469	55,606
 Total Inventories	 \$ 96,791	 \$ 90,936
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 34,073	\$ 49,345
Rent	4,200	4,200
Other	28,311	26,883
 Total Prepaid Expenses	 \$ 66,584	 \$ 80,428

**FRANKLIN GENERAL HOSPITAL  
 SUPPLEMENTARY SCHEDULES OF COMPARATIVE STATISTICS  
 YEARS ENDED JUNE 30, 2004 AND 2003  
 (UNAUDITED)**

	<u>2004</u>	<u>2003</u>
<b>ACUTE</b>		
Admissions	227	235
Discharges	224	238
Average Length of Stay	3.4	3.7
Patient Days	768	883
Occupancy Percentage	8.42%	9.68%
Beds	25	25
<b>SWING BED</b>		
Admissions	111	110
Patient Days	1,046	1,333
<b>NURSING FACILITY</b>		
Admissions	46	44
Discharges	49	44
Patient Days	16,937	17,743
Occupancy Percentage	89.24%	93.48%
Beds	52	52

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees  
Franklin General Hospital  
Hampton, Iowa

We have audited the primary government financial statements of Franklin General Hospital as of and for the year ended June 30, 2004, which collectively comprise Franklin General Hospital's basic financial statements, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 General Hospital's internal control over financial reporting in order to determine audit procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin General Hospital's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of primary government 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 non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the officials, employees, and constituents of Franklin General Hospital and other parties to whom Franklin General Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 3, 2004

**FRANKLIN GENERAL HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

04-1 Official Depository Banks

A resolution of official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Hospital disbursements for the year ended June 30, 2004 did not exceed amounts budgeted.

04-3 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

04-4 Questionable Expenditures

We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

04-5 Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

04-6 Business Transactions

Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

The Hospital has deposited funds at United Bank & Trust, of which current board member Charlie Brown is President. Total deposits amounted to \$598,550 as of June 30, 2004.

The Hospital has deposited funds at First National Bank of Hampton, of which current Board member Bruce Harris is Vice President. Total deposits amounted to \$609,654 as of June 30, 2004.

The Hospital purchases its workers' compensation insurance from Farm Bureau Agency, of which current Board member Allan Menning is an employee.

The Hospital also has loans through the Franklin County Bankers Association in the amount of \$1,076,696. United Bank & Trust and First National Bank of Hampton are participating banks in this loan.

Recommendation

The Hospital should consult legal counsel regarding such transactions and do whatever is possible to mitigate the appearance of a conflict of interest.

Response

The Hospital will consult a legal counsel regarding this matter.

**FRANKLIN GENERAL HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

04-7     Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

04-8     Publication of Bills Allowed and Salaries

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..."The Hospital did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.

04-9     Chapter 28E Organization

The Hospital has entered into a joint venture, Mobile Radiology, LLC, under the provisions of Chapter 28E of the Code of Iowa. This joint venture has contracted for an audit under the provisions of Chapter 28E.