

FRANKLIN GENERAL HOSPITAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2005 AND 2004

**FRANKLIN GENERAL HOSPITAL
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FRANKLIN GENERAL HOSPITAL
ORGANIZATION DATA
YEAR ENDED JUNE 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Charlie Brown	Chairperson	2006
Janet Siems	Secretary	2006
Doreen Petersen	Treasurer	2006
Allan Menning	Member	2008
Bruce Harris	Member	2008
Don Wohlford	Member	2010
Pamela Rusinack	Member	2010
ADMINISTRATION		
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, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

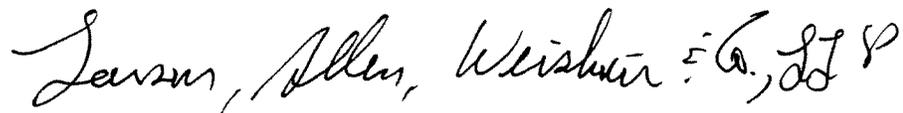
In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of Franklin General Hospital as of June 30, 2005 and 2004 and the changes in financial position and cash flows thereof for the years then ended, in conformity 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, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2005 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 26 are not a required part of the basic financial statements, but are 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 27 to 33 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 34 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in dark ink and is positioned above the printed name of the firm.

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 9, 2005

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

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, 2005. 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 30, 2005 and 2004 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 \$718,899 or 5.8% in 2005 and increased \$152,587 or 1.3% in 2004.
- The Hospital's total liabilities increased \$435,984 or 14.1% in 2005 and decreased \$28,945 or 1.0% in 2004.
- The Hospital's net assets increased \$282,915 or 3.1% in 2005 and increased \$181,532 or 2.0% in 2004.
- The Hospital reported negative operating income of \$153,538 in 2005 and \$626,618 in 2004. This represents an increase of \$473,080 in 2005 and a decrease of \$539,527 in 2004.

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 Expenses 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.

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**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

The Balance Sheets and Statement of Revenues, Expenses and Changes in Net Assets (Continued)

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 Patient Service Revenues
- Schedules of Adjustments to 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

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>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 4,493,997	\$ 3,508,296	\$ 2,983,950
Noncurrent Cash and Investments	1,434,654	1,405,818	1,356,375
Capital Assets, Net	6,219,311	6,551,094	7,015,319
Succeeding Year Property Tax Receivable	743,541	719,331	720,271
Other Assets	<u>168,362</u>	<u>156,427</u>	<u>112,464</u>
Total Assets	<u><u>\$ 13,059,865</u></u>	<u><u>\$ 12,340,966</u></u>	<u><u>\$ 12,188,379</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,577,608	\$ 1,056,810	\$ 1,008,086
Long-Term Debt (Less Current Maturities)	1,058,888	1,299,811	1,377,184
Other Liabilities	897,036	740,927	741,223
Total Liabilities	<u>3,533,532</u>	<u>3,097,548</u>	<u>3,126,493</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	5,069,500	5,173,910	5,564,242
Restricted Under Debt Agreement	181,800	151,747	96,839
Unrestricted	<u>4,275,033</u>	<u>3,917,761</u>	<u>3,400,805</u>
Total Net Assets	<u>9,526,333</u>	<u>9,243,418</u>	<u>9,061,886</u>
Total Liabilities and Net Assets	<u><u>\$ 13,059,865</u></u>	<u><u>\$ 12,340,966</u></u>	<u><u>\$ 12,188,379</u></u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Financial Analysis of the Hospital (Continued)

Several asset and liability categories changed significantly during 2005 and 2004. Current Assets increased \$985,701 or 28.1% in 2005 and increased \$524,346 or 17.6% in 2004. Other Assets increased \$11,935 or 7.6% in 2005 and increased \$43,963 or 39.1% in 2003. Total Current Liabilities increased \$520,798 or 49.3% in 2005 and increased \$48,724 or 4.8% in 2004.

The current ratio (current assets divided by current liabilities) for 2005 decreased to 2.85, compared to 3.32 and 2.96 in 2004 and 2003 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>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues			
Net Patient Service Revenue	\$ 9,631,550	\$ 8,884,740	\$ 9,119,886
Other Revenue	234,541	225,338	154,742
Total Operating Revenues	<u>9,866,091</u>	<u>9,110,078</u>	<u>9,274,628</u>
Expenses			
Salaries and Wages	4,805,066	4,709,199	4,542,845
Employee Benefits	1,099,954	1,006,681	927,068
Professional Fees	859,687	808,292	972,832
Utilities	192,668	197,302	172,521
Management, Legal, and Accounting Fees	275,215	211,791	151,598
Insurance	122,495	103,366	90,861
Supplies and Miscellaneous	2,135,830	2,114,268	1,983,997
Depreciation	520,275	577,026	510,632
Interest	8,439	8,771	9,365
Total Expenses	<u>10,019,629</u>	<u>9,736,696</u>	<u>9,361,719</u>
Operating Loss	(153,538)	(626,618)	(87,091)
Due from Affiliated Organization	-	20,410	-
Adjusted Operating Loss	(153,538)	(606,208)	(87,091)
Non-Operating Income	<u>429,902</u>	<u>805,499</u>	<u>865,239</u>
Excess Of Revenues Over Expenses	276,364	199,291	778,148
Capital Contributions and Grants	38,725	17,008	58,920
Foundation Expenses	(32,174)	(34,767)	(29,757)
Change in Net Assets	<u>282,915</u>	<u>181,532</u>	<u>807,311</u>
Net Assets Beginning of Year	<u>9,243,418</u>	<u>9,061,886</u>	<u>8,254,575</u>
Net Assets End of Year	<u>\$ 9,526,333</u>	<u>\$ 9,243,418</u>	<u>\$ 9,061,886</u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Financial Analysis of the Hospital (Continued)

The increase in patient revenues from 2004 to 2005 is mainly attributable to an increase in patient volumes. Acute and swing bed days increased 18.1%, while nursing facility days increased 4.6%. A decrease in patient volumes is also the main factor in the decrease of patient revenues from 2003 to 2004. Acute and swing bed days decreased 18.1% in 2004, and nursing facility days decreased 4.5%. The increase in expenses in 2004 and 2005 are due to changes in patient volumes as well as the increasing cost of medical supplies and pharmaceuticals

Net patient service revenue made up 97.6% in 2005 and 97.5% in 2004 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>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 13,182,243	\$ 11,551,294	\$ 11,459,654
Contractual Adjustments and Provisions for Bad Debt	<u>(3,550,693)</u>	<u>(2,666,554)</u>	<u>(2,339,768)</u>
Net Patient Service Revenue	<u>\$ 9,631,550</u>	<u>\$ 8,884,740</u>	<u>\$ 9,119,886</u>
Contractual Adjustments as a Percent of Revenues	<u>26.94%</u>	<u>23.08%</u>	<u>20.42%</u>

Total Operating Revenues increased \$756,013 or 8.3% in 2005 and decreased \$164,550 or 1.8% in 2004. Patient services revenues are listed by department on pages 26-27 of the audited financial report. Total operating expenses increased \$282,933 or 2.9% in 2005 and increased \$374,977 or 4.0% in 2004. Operating expenses listed by department are on pages 29-30 of the audited financial report.

Other Operating Revenues increased \$9,203 or 4.1% in 2005 and increased \$70,596 or 45.7% in 2004. Table 4 shows the detail for this line item.

Table 4: Other Operating Revenues

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Clinic Rent Income	\$ 39,347	\$ 32,525	\$ 38,010
Pharmacy Rent	14,434	14,214	14,214
Dietary	27,948	31,080	37,161
Grant Revenue	87,422	116,128	50,966
Physical Therapy Contracts	1,723	6,750	6,490
Medical Record Transcripts	1,806	2,117	2,018
Miscellaneous	<u>61,861</u>	<u>22,524</u>	<u>5,883</u>
Total Other Operating Revenues	<u>\$ 234,541</u>	<u>\$ 225,338</u>	<u>\$ 154,742</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. Although Acute, Swing Bed, and Nursing Facility patient days all recorded decreases in 2004, both Acute and Nursing Facility recorded increases in 2005. Acute patient days increased 237 or 30.1% in 2005 after decreasing 115 or 13.1% in 2004. Nursing Facility patient days increased 771 or 4.6% after decreasing 806 or 4.6% in 2004. Swing Bed patient days increased 91 or 14.3% in 2005 after decreasing 287 or 21.5% in 2004.

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Hospital Statistical Data (Continued)

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	1,005	768	883
Swing Bed	1,137	1,046	1,333
Nursing Facility	17,708	16,937	17,743
Total	<u>19,850</u>	<u>18,751</u>	<u>19,959</u>
Admissions			
Acute	259	227	235
Swing Bed	103	111	110
Nursing Facility	28	46	44
Total	<u>390</u>	<u>384</u>	<u>389</u>
Discharges			
Acute	257	224	238
Swing Bed	104	112	107
Nursing Facility	22	49	44
Total	<u>383</u>	<u>385</u>	<u>389</u>
Average Length of Stay			
Acute	3.91	3.43	3.71
Swing Bed	10.93	9.34	12.46
Average Daily Census			
Acute	2.75	2.10	2.42
Swing Bed	3.12	2.86	3.65
Nursing Facility	48.52	46.40	48.61
Occupancy Percentage			
Acute (Based on 25 Beds)	11.01%	8.42%	9.68%
Nursing Facility (Based on 52 Beds)	93.30%	89.24%	93.48%

Cash Flows

The Hospital had positive cash flow in 2005 due to cash provided by operating activities and non-capital financing activities. In 2005, the Hospital's cash and cash equivalents increased by \$1,215,616 or 77.5%. The Statement of Cash Flows is on page 12 of the audited financial report.

Capital Assets

At June 30, 2005, the Hospital had \$6,219,311 invested in capital assets net of accumulated depreciation. The Hospital expended \$339,770 to purchase new equipment in 2005 and \$265,931 in 2004. A summary of capital assets is on page 19 of the audited financial report.

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Long Term Debt

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

Table 6: Long Term Debt	<u>2005</u>	<u>2004</u>	<u>2003</u>
Corn Belt Power	\$ 146,651	\$ 170,488	\$ 193,141
Franklin REC	110,000	130,000	150,000
Franklin County Banker's Association	<u>893,160</u>	<u>1,076,696</u>	<u>1,107,935</u>
 Total Long Term Debt	 <u>\$ 1,149,811</u>	 <u>\$ 1,377,184</u>	 <u>\$ 1,451,076</u>

The Hospital's long-term debt decreased \$227,373 in 2005 and decreased \$73,892 in 2004. The Hospital made an extra \$150,000 payment toward the Franklin County Banker's Association loan in 2005. Additional detail regarding the long-term debt is listed on page 21 of the audited financial report.

Summary Comments

The Hospital's financials improved significantly this year as a result of increasing patient volumes, coupled with Administration's efforts to manage expenses. Franklin General Hospital is committed to continued fiscal improvement and dedicated to addressing the ongoing challenges we face.

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 Dixie Kavars, Interim CEO, Franklin General Hospital, 1720 Central Avenue East, Hampton, Iowa 50441-1859.

**FRANKLIN GENERAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,784,326	\$ 1,568,710
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$291,740 in 2005 and \$225,672 in 2004	1,321,576	1,419,078
Accounts Receivable - Affiliated Organizations	12,466	34,550
County Tax Receivable	12,710	8,467
Other Receivables	199,498	67,381
Inventories	102,477	96,791
Prepaid Expenses	60,944	66,584
Third Party Payor Settlements	-	246,735
Total Current Assets	4,493,997	3,508,296
NONCURRENT CASH AND INVESTMENTS		
Restricted by Debt Agreements	181,800	151,747
Restricted by Resident Trust Agreement	2,661	4,096
Internally Designated for Capital Acquisition	1,250,193	1,249,975
Total Noncurrent Cash and Investments	1,434,654	1,405,818
CAPITAL ASSETS, NET	6,219,311	6,551,094
OTHER ASSETS		
Succeeding Year Property Tax Receivable	743,541	719,331
Investment in Affiliated Organization	94,087	82,152
Physician Advances	74,275	74,275
Total Other Assets	911,903	875,758
Total Assets	\$ 13,059,865	\$ 12,340,966

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 245,006	\$ 219,172
Accrued Expenses	700,364	760,265
Third Party Payor Settlements	407,982	-
Current Portion of Contribution Payable	133,333	-
Current Maturities of Long-Term Debt	90,923	77,373
Total Current Liabilities	<u>1,577,608</u>	<u>1,056,810</u>
LONG-TERM DEBT, Less Current Maturities	1,058,888	1,299,811
OTHER LIABILITIES		
Deferred Revenue For Succeeding Year Property Tax Receivable	743,541	719,331
Contribution Payable	133,334	-
Lease Deposit	17,500	17,500
Residents' Cash Fund	2,661	4,096
Total Other Liabilities	<u>897,036</u>	<u>740,927</u>
Total Liabilities	3,533,532	3,097,548
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	5,069,500	5,173,910
Restricted Under Debt Agreement	181,800	151,747
Unrestricted	4,275,033	3,917,761
Total Net Assets	<u>9,526,333</u>	<u>9,243,418</u>
Total Liabilities and Net Assets	<u>\$ 13,059,865</u>	<u>\$ 12,340,966</u>

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenues, Net of Provision for Bad Debt of \$301,448 in 2005 and \$274,258 in 2004	\$ 9,631,550	\$ 8,884,740
Other Revenue	234,541	225,338
Total Revenues	9,866,091	9,110,078
EXPENSES		
Salaries and Wages	4,805,066	4,709,199
Employee Benefits	1,099,954	1,006,681
Professional Fees	859,687	808,292
Utilities	192,668	197,302
Management, Legal, and Accounting Fees	275,215	211,791
Insurance	122,495	103,366
Supplies and Miscellaneous	2,135,830	2,114,268
Depreciation	520,275	577,026
Interest	8,439	8,771
Total Expenses	10,019,629	9,736,696
OPERATING LOSS	(153,538)	(626,618)
DUE (TO) FROM AFFILIATED ORGANIZATION	-	20,410
ADJUSTED OPERATING LOSS	(153,538)	(606,208)
NON-OPERATING INCOME (EXPENSES)		
Income on Investment in Affiliated Organization	21,694	9,920
Tax Apportionments	749,071	744,298
Contributions	(386,212)	18,123
Interest Income	48,071	48,286
Gain/(Loss) on Sale of Property and Equipment	-	(1,352)
Income (Loss) from Franklin Prairie Apartments	(20,003)	(34,152)
Miscellaneous	17,281	20,376
Non-Operating Income	429,902	805,499
EXCESS OF REVENUES OVER EXPENSES	276,364	199,291
Capital Contributions and Grants	38,725	17,008
Foundation Expenses	(32,174)	(34,767)
Increase in Net Assets	282,915	181,532
Net Assets Beginning of Year	9,243,418	9,061,886
Net Assets End of Year	\$ 9,526,333	\$ 9,243,418

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 10,383,769	\$ 8,637,701
Cash Paid to Employees	(5,964,921)	(5,708,250)
Cash Paid to Suppliers	(3,695,907)	(3,427,582)
Interest Payments on Long-Term Debt	(8,439)	(8,771)
Other Receipts and Payments, Net	234,541	225,338
Net Cash Provided (Used) by Operating Activities	949,043	(281,564)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	(82,260)	35,131
County Taxes	749,071	744,298
Transfer to Franklin General Hospital Foundation	(32,174)	(34,767)
Income from Franklin Prairie Apartments	131,280	117,130
Miscellaneous Non-Operating Revenue	17,281	20,376
Net Cash Provided by Non-Capital Financing Activities	783,198	882,168
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(339,770)	(265,931)
Proceeds from the Sale of Property and Equipment	-	500
Payments on Long Term Debt	(227,373)	(73,893)
Net Cash Used by Capital and Related Financing Activities	(567,143)	(339,324)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(28,836)	(49,443)
Income on Investment from Affiliated Organization	21,694	9,920
Increase (Decrease) in Investment in Affiliated Organization	9,759	(42,043)
Interest Earned on Investments	47,901	47,522
Net Cash Provided (Used) by Investing Activities	50,518	(34,044)
INCREASE IN CASH AND CASH EQUIVALENTS	1,215,616	227,236
Cash and Cash Equivalents - Beginning	1,568,710	1,341,474
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,784,326	\$ 1,568,710

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (153,538)	\$ (626,618)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	520,275	577,026
Decrease (Increase) in -		
Patient Receivables	97,502	(38,287)
County Tax Levy Receivable	(4,243)	2,076
Accounts Receivable - Other	(153,641)	(49,038)
Accounts Receivable - Affiliated Organizations	22,084	156
Inventories	(5,686)	(5,855)
Prepaid Expenses	5,640	13,844
Third Party Payor Settlement Receivable	246,735	(208,756)
Other Assets	-	8,000
Increase (Decrease) in -		
Accounts Payable	25,834	37,614
Accrued Expenses	(59,901)	7,630
Third Party Payor Settlements Payable	407,982	-
Other Liabilities	-	644
Net Cash Provided (Used) by Operating Activities	\$ 949,043	\$ (281,564)

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hospital is the county hospital of Franklin County (the Hospital), 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.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an original maturity of three months or less.

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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenditures of \$5,000 or greater are capitalized and amortized over the life of the asset.

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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets (Continued)

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 restricted to a specific operating purpose are reported as other operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating 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

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including interest income, taxes, unrestricted grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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, 2002 and Medicaid cost reports through June 30, 2002 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, 2005 and 2004 was \$26,376 and \$3,139, 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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 2 NET PATIENT SERVICE REVENUES (CONTINUED)

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

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 13,182,243	\$ 11,551,294
Contractual Adjustments		
Medicare	(2,288,203)	(1,556,752)
Medicaid	(360,259)	(344,700)
Provision for Bad Debt	(301,448)	(274,258)
Other	(600,783)	(490,844)
Total Contractual Adjustments and Bad Debts	<u>(3,550,693)</u>	<u>(2,666,554)</u>
Net Patient Service Revenues	<u>\$ 9,631,550</u>	<u>\$ 8,884,740</u>

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 979,780	\$ 838,802
Receivable from Medicare	466,717	603,214
Receivable from Medicaid	166,819	202,734
Total Patient Receivables	<u>1,613,316</u>	<u>1,644,750</u>
Less Allowance for Doubtful Accounts	(291,740)	(225,672)
Patient Receivables, Net	<u>\$ 1,321,576</u>	<u>\$ 1,419,078</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 and 2004 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, 2005 AND 2004**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2005 and 2004, deposits and investments are included in the Hospital's balance sheet as follows:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 2,784,326	\$ 1,568,710
Noncurrent Cash and Investments		
Restricted by Debt Agreements	181,800	151,747
Restricted by Resident Trust Agreement	2,661	4,096
Internally Designated for Capital Acquisition	<u>1,250,193</u>	<u>1,249,975</u>
	<u>\$ 4,218,980</u>	<u>\$ 2,974,528</u>

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2005</u>
Capital Assets				
Land and Land Improvements	\$ 506,229	\$ -	\$ -	\$ 506,229
Building	6,938,474	19,937	-	6,958,411
Fixed Equipment	2,899,537	-	-	2,899,537
Major Movable Equipment	2,426,815	254,973	(38,132)	2,643,656
Construction in Progress	<u>40,535</u>	<u>64,860</u>	<u>-</u>	<u>105,395</u>
Totals	<u>\$ 12,811,590</u>	<u>\$ 339,770</u>	<u>\$ (38,132)</u>	<u>\$ 13,113,228</u>
Accumulated Depreciation				
Land Improvements	\$ 233,778	\$ 14,226	\$ -	\$ 248,004
Building	2,568,352	341,860	-	2,910,212
Fixed Equipment	1,617,787	116,243	-	1,734,030
Major Movable Equipment	<u>1,840,579</u>	<u>199,224</u>	<u>(38,132)</u>	<u>2,001,671</u>
Totals	<u>\$ 6,260,496</u>	<u>\$ 671,553</u>	<u>\$ (38,132)</u>	<u>\$ 6,893,917</u>
	<u>\$ 6,551,094</u>			<u>\$ 6,219,311</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	June 30, 2003	Additions	(Retirements)	June 30, 2004
Capital Assets				
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	220,300	(477,878)	2,426,815
Construction in Progress	2,936	82,708	(45,109)	40,535
	<u>\$ 13,034,322</u>	<u>\$ 311,040</u>	<u>\$ (533,772)</u>	<u>\$ 12,811,590</u>
Accumulated Depreciation				
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
	<u>\$ 6,019,003</u>	<u>\$ 728,305</u>	<u>\$ (486,812)</u>	<u>\$ 6,260,496</u>
	<u>\$ 7,015,319</u>			<u>\$ 6,551,094</u>

NOTE 6 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 2005 and 2004, the Hospital received distributions of \$9,759 and \$34,094, respectively. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$21,694 and \$9,920 in 2005 and 2004, 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 LONG-TERM DEBT

Summaries of long-term debt for the years ended June 30, 2005 and 2004 are as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 170,488	\$ -	\$ (23,837)	\$ 146,651	\$ 25,057
Non-Interest Bearing Note, FREC	130,000	-	(20,000)	110,000	20,000
Promissory Note, FCBA	1,076,696	-	(183,536)	893,160	45,866
Total Long-Term Debt	<u>\$ 1,377,184</u>	<u>\$ -</u>	<u>\$ (227,373)</u>	<u>\$ 1,149,811</u>	<u>\$ 90,923</u>
	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>

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. During the year ended June 30, 2005, the Hospital chose to pay additional on the note payable of \$150,000.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 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
2006	\$ 90,923	\$ 63,651
2007	95,286	59,288
2008	99,773	54,802
2009	104,839	49,736
2010	110,072	44,502
2011-2015	380,769	150,942
2016-2020	268,149	26,648
	\$ 1,149,811	\$ 449,569

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.

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, 2005, 2004, and 2003 were approximately \$235,600, \$236,200, and \$251,000, respectively, equal to the required contributions for each year.

NOTE 9 RELATED ORGANIZATION

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 \$400,332 and \$395,808 for the years ended June 30, 2005 and 2004, 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, which is reflected in accounts receivable – affiliated organizations. No operating losses were shared by MMC-NI and the Hospital for the year ended June 30, 2005.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 RELATED ORGANIZATION (CONTINUED)

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 \$405,618 and \$328,566 for the years ended June 30, 2005 and 2004, respectively.

Due to and from Affiliated Organization

As of June 30, 2005 and 2004, the Hospital's records reflect a due to MMC-NI of \$60,409 and \$88,137, respectively, for the various services provided and is included in accounts payable on the balance sheet.

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, 2005 and 2004, the Hospital recorded transfers to the Foundation of \$32,174 and \$34,767. These amounts represent expenses paid by the Hospital on behalf of the Foundation. Also during the years ended June 30, 2005 and 2004, the Hospital received \$89,434 and \$35,131 from the Foundation.

A summary of the Foundation's assets, liabilities, and net assets as of June 30, 2005 and 2004 and results of operations, and changes in net assets for the years then ended follows:

	<u>2005</u>	<u>2004</u>
Assets	<u>\$ 733,025</u>	<u>\$ 602,147</u>
Liabilities	\$ 109,007	\$ 35,458
Net Assets	624,018	566,689
Total Liabilities and Net Assets	<u>\$ 733,025</u>	<u>\$ 602,147</u>
Revenues	\$ 188,001	\$ 82,494
Expenses	162,846	72,986
Excess of Revenues Over Expenses	25,155	9,508
Net Assets - Beginning	566,689	522,414
Transfer from Franklin General Hospital	32,174	34,767
Net Assets - Ending	<u>\$ 624,018</u>	<u>\$ 566,689</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 RELATED ORGANIZATION (CONTINUED)

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:

2006	\$	210,000
2007		52,500

NOTE 10 COMMITMENTS AND CONTINGENCIES

Contribution Payable

The Hospital has committed to contribute \$400,000 to a wellness center project in Hampton, Iowa, over a three year period. Because they have made an unconditional commitment for the project the entire amount has been recognized as a contribution during 2005. During the year ended June 30, 2005, the Hospital contributed \$133,333 for the project, and \$266,667 is reflected as a contribution payable at June 30, 2005.

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.

Litigation

The Hospital is involved in litigation arising in the normal course of business. In consultation with legal counsel, it is not practical to assess the likelihood of an unfavorable outcome at this time however the Hospital intends to vigorously defend the litigation.

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.

Healthcare Legislation and Regulation

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 participation 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. Violation 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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, 2005**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 749,071	\$ -	\$ 749,071	\$ 719,331	\$ 29,740
Estimated Other Revenues/Receipts	<u>9,585,647</u>	<u>1,168,559</u>	<u>10,754,206</u>	<u>9,911,939</u>	<u>842,267</u>
	10,334,718	1,168,559	11,503,277	10,631,270	872,007
Expenses/Disbursements	<u>10,051,803</u>	<u>207,022</u>	<u>10,258,825</u>	<u>10,887,997</u>	<u>(629,172)</u>
Net	282,915	961,537	1,244,452	(256,727)	1,501,179
Balance Beginning of Year	<u>9,243,418</u>	<u>(6,268,890)</u>	<u>2,974,528</u>	<u>3,049,500</u>	<u>(74,972)</u>
Balance End of Year	<u>\$ 9,526,333</u>	<u>\$ (5,307,353)</u>	<u>\$ 4,218,980</u>	<u>\$ 2,792,773</u>	<u>\$ 1,426,207</u>

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of FGH on the cash basis following 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, however, the budget was not amended during the year ended June 30, 2005. Formal and legal budgetary control is based on total expenditures.

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OTHER SUPPLEMENTARY INFORMATION

**FRANKLIN GENERAL HOSPITAL
SUPPLEMENTARY SCHEDULES OF
PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 754,802	\$ 598,912
Swing Bed	262,698	239,551
Nursing Facility	1,881,171	1,706,791
Total	<u>2,898,671</u>	<u>2,545,254</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	627,024	598,391
Anesthesiology	231,611	225,262
Radiology	1,549,920	1,300,715
Laboratory	1,775,739	1,547,331
Respiratory Therapy	450,942	443,745
Physical Therapy	392,399	282,893
Speech Therapy	5,358	13,742
Occupational Therapy	34,790	47,192
Enterostomal Therapy	32,313	25,373
Electrocardiology	94,479	76,662
Cardiac Rehab	54,098	55,996
Medical and Surgical Supplies	538,041	543,218
Pharmacy	807,781	673,112
Infusion Therapy	88,874	62,235
Clinics	2,457,718	2,212,855
Emergency Room	568,287	490,329
Ambulance	600,574	410,128
Total	<u>10,309,948</u>	<u>9,009,179</u>
Charity Care	<u>(26,376)</u>	<u>(3,139)</u>
Total Patient Service Revenues	13,182,243	11,551,294
Adjustments to Patient Services Revenues	<u>(3,550,693)</u>	<u>(2,666,554)</u>
Net Patient Service Revenues	<u>\$ 9,631,550</u>	<u>\$ 8,884,740</u>

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 522,875	\$ 374,428	\$ 231,927	\$ 224,484
262,698	239,551	-	-
1,881,171	1,706,791	-	-
<u>2,666,744</u>	<u>2,320,770</u>	<u>231,927</u>	<u>224,484</u>
25,995	26,578	601,029	571,813
15,837	16,008	215,774	209,254
67,802	59,837	1,482,118	1,240,878
181,565	144,096	1,594,174	1,403,235
270,090	198,527	180,852	245,218
109,419	88,272	282,980	194,621
3,343	2,719	2,015	11,023
23,281	23,339	11,509	23,853
3,411	331	28,902	25,042
6,506	4,426	87,973	72,236
-	-	54,098	55,996
70,004	63,393	468,037	479,825
357,399	246,164	450,382	426,948
-	-	88,874	62,235
-	-	2,457,718	2,212,855
514	3,570	567,773	486,759
12,549	5,541	588,025	404,587
<u>1,147,715</u>	<u>882,801</u>	<u>9,162,233</u>	<u>8,126,378</u>
<u>\$ 3,814,459</u>	<u>\$ 3,203,571</u>	<u>\$ 9,394,160</u>	<u>\$ 8,350,862</u>

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**FRANKLIN GENERAL HOSPITAL
SUPPLEMENTARY SCHEDULES OF ADJUSTMENTS TO PATIENT
SERVICE REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 2,288,203	\$ 1,556,752
Contractual Adjustments - Medicaid	360,259	344,700
Provision for Bad Debt	301,448	274,258
Other Allowances and Adjustments	600,783	490,844
 Total Adjustments	 \$ 3,550,693	 \$ 2,666,554
OTHER REVENUES		
Clinic Rent Income	\$ 39,347	\$ 32,525
Pharmacy Rent	14,434	14,214
Dietary	27,948	31,080
Grant Revenue	87,422	116,128
Physical Therapy Contracts	1,723	6,750
Medical Record Transcripts	1,806	2,117
Miscellaneous	61,861	22,524
 Total Other Revenues	 \$ 234,541	 \$ 225,338

**FRANKLIN GENERAL HOSPITAL
SUPPLEMENTARY SCHEDULES OF EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 321,050	\$ 326,783
Capital Related Costs - Moveable Equipment	199,225	250,243
Employee Benefits	1,099,954	1,006,681
Administrative and General	1,000,374	889,371
Marketing	48,679	44,875
Operation of Plant	416,531	437,897
Laundry and Linen	118,537	113,682
Housekeeping	146,057	131,773
Dietary	369,525	370,948
Central Sterile	37,483	50,701
Nursing Administration	132,885	106,379
Purchasing	35,979	35,483
Medical Records	141,769	137,604
Social Services	55,195	52,381
Medical and Surgical	671,508	696,540
Nursing Facility	865,727	902,193
Operating Room	190,611	178,248
Anesthesiology	100,507	104,201
Radiology	638,029	579,141
Laboratory	534,965	473,793
Respiratory Therapy	37,519	29,761
Physical Therapy	160,932	158,732
Occupational Therapy	19,396	31,529
Speech Therapy	5,391	6,978
Enterostomal Therapy	10,293	6,006
Electrocardiology	19,551	15,329
Central Supply	122,498	160,743
Pharmacy	246,689	245,350
Cardiac Rehab	30,409	36,679
Infusion Therapy	11,470	7,540
Clinics	1,718,825	1,675,350
Emergency Room	273,839	276,033
Ambulance	215,309	175,196
Community Education	14,479	13,782
Interest	8,439	8,771
TOTAL	\$ 10,019,629	\$ 9,736,696

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 321,050	\$ 326,783
-	-	199,225	250,243
-	-	1,099,954	1,006,681
290,430	279,582	709,944	609,789
27,364	22,009	21,315	22,866
118,297	113,525	298,234	324,372
17,878	16,187	100,659	97,495
127,655	111,997	18,402	19,776
219,710	187,884	149,815	183,064
31,932	48,792	5,551	1,909
125,932	102,585	6,953	3,794
32,287	32,165	3,692	3,318
113,417	113,365	28,352	24,239
54,712	51,131	483	1,250
628,250	658,448	43,258	38,092
836,301	865,281	29,426	36,912
112,346	98,750	78,265	79,498
-	-	100,507	104,201
183,307	185,292	454,722	393,849
191,304	191,203	343,661	282,590
16,638	8,770	20,881	20,991
143,071	150,877	17,861	7,855
-	-	19,396	31,529
-	-	5,391	6,978
-	-	10,293	6,006
8,109	7,654	11,442	7,675
-	-	122,498	160,743
-	-	246,689	245,350
27,485	24,939	2,924	11,740
10,158	6,974	1,312	566
1,297,119	1,253,847	421,706	421,503
68,499	65,344	205,340	210,689
108,555	99,035	106,754	76,161
14,310	13,563	169	219
-	-	8,439	8,771
<u>\$ 4,805,066</u>	<u>\$ 4,709,199</u>	<u>\$ 5,214,563</u>	<u>\$ 5,027,497</u>

**FRANKLIN GENERAL HOSPITAL
SUPPLEMENTARY SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital)	\$ 1,183,208	60.61 %	\$ 994,523	52.53 %
31-60 Days	275,154	14.10	297,877	15.73
61-90 Days	108,238	5.54	171,572	9.06
91 Days and Over	385,520	19.75	429,135	22.68
Total Accounts Receivable	<u>1,952,120</u>	<u>100.00 %</u>	<u>1,893,107</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -

Medicare	263,663	175,753
Medicaid & Other	75,141	72,604
Doubtful Accounts	<u>291,740</u>	<u>225,672</u>

Net Accounts Receivable	<u>\$ 1,321,576</u>	<u>\$ 1,419,078</u>
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Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 27,214</u>	<u>\$ 25,093</u>
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Days of Net Revenue in net Accounts Receivable at Year End	<u>49</u>	<u>57</u>
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Analysis of Allowance for Doubtful Accounts	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 225,672		\$ 271,856	
Add:				
Provision for Doubtful Accounts	301,448	3.03 %	274,258	2.99 %
Recoveries Previously Written Off	<u>126,554</u>	<u>1.27 %</u>	<u>125,404</u>	<u>1.37 %</u>
	428,002		399,662	
Deduct:				
Accounts Written Off	<u>(361,934)</u>	<u>(3.64)%</u>	<u>(445,846)</u>	<u>(4.87)%</u>
Ending Balance	<u>\$ 291,740</u>		<u>\$ 225,672</u>	

**FRANKLIN GENERAL HOSPITAL
 SUPPLEMENTARY SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
 YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
INVENTORIES		
Medical / Surgical	\$ 10,098	\$ 10,374
Laboratory	26,685	29,948
Pharmacy	65,694	56,469
 Total Inventories	 \$ 102,477	 \$ 96,791
 PREPAID EXPENSES		
Insurance	\$ 12,759	\$ 34,076
Rent	4,200	4,200
Other	43,985	28,308
 Total Prepaid Expenses	 \$ 60,944	 \$ 66,584

**FRANKLIN GENERAL HOSPITAL
 SUPPLEMENTARY SCHEDULES OF COMPARATIVE STATISTICS
 YEARS ENDED JUNE 30, 2005 AND 2004
 (UNAUDITED)**

	<u>2005</u>	<u>2004</u>
ACUTE		
Admissions	259	227
Discharges	257	224
Average Length of Stay	3.91	3.43
Patient Days	1,005	768
Occupancy Percentage	11.01%	8.42%
Beds	25	25
SWING BED		
Admissions	103	111
Discharges	104	112
Average Length of Stay	10.93	9.34
Patient Days	1,137	1,046
NURSING FACILITY		
Admissions	28	46
Discharges	22	49
Patient Days	17,708	16,937
Occupancy Percentage	93.3%	89.2%
Beds	52	52

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

Board of 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, 2005, which collectively comprise Franklin General Hospital's basic financial statements, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Franklin General Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings.

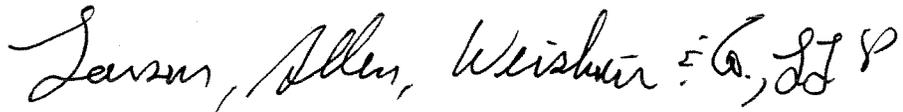
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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. However, we believe the reportable conditions described above are 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 an instance of non-compliance and other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as 05-II-1.

We also noted certain additional matters that we reported to management of Franklin General Hospital in a separate letter dated September 9, 2005.

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

Austin, Minnesota
September 9, 2005

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

PART I: FINDINGS RELATED TO FINANCIAL STATEMENTS

Reportable Conditions

05-I-1 Segregation of Duties

One individual is responsible for preparing purchase orders, ordering supplies, receiving supplies, receiving invoices and cutting and mailing disbursement checks. In addition, the Hospital recently obtained software and equipment allowing signatures to be printed on the checks. Because of the processes in place, there are many instances when the same individual could order and receive goods and pay the invoice without anyone else even being aware of the transaction.

Recommendation

We recommend segregating the incompatible duties described above so that one individual does not perform all of these functions. One common and effective control is to separate the processes of ordering and receiving from the accounts payable function. We understand that due to the Hospital's limited personnel the separation of certain duties can be difficult. In the absence of assigning these functions to multiple personnel, we recommend establishing a review process for all invoices prior to payment.

Response

We will review and revise our procedures as suggested.

Conclusion

Response accepted.

05-I-2 Hospital Credit Card

There is currently no review and approval process prior to making a payment for the monthly statement; one individual receives the statements and remits payment to the credit card company. This same individual has the ability to make a credit card purchase without receiving prior approval.

Recommendation

We recommend requiring review and approval of the statements by a different individual prior to cutting payments for the monthly credit card statements.

Response

We will and revise our procedures as suggested.

Conclusion

Response accepted.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

PART II: FINDINGS RELATED TO COMPLIANCE

05-II-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 exceeded during the year ended June 30, 2005 at one bank.

Recommendation

We recommend monitoring deposits at each bank to ensure deposits do not exceed the amount allowed by the current depository resolution. We also recommend evaluating the adequacy of the current maximum deposit amounts based on the existing cash and deposit balances.

Response

We will monitor our cash balances and assess the adequacy of maximum depository amounts.

Conclusion

Response accepted.

05-II-2 Certified Budget

Hospital disbursements for the year ended June 30, 2005 did not exceed amounts budgeted.

05-II-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.

05-II-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.

05-II-5 Travel Expense

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

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

05-II-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 \$598,225 as of June 30, 2005.

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 \$605,947 as of June 30, 2005.

The Hospital also has loans through the Franklin County Bankers Association in the amount of \$893,160. United Bank & Trust and First National Bank of Hampton are participating banks in this loan.

05-II-7 Board Minutes

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

05-II-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.

05-II-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.

