

**FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

FRANKLIN GENERAL HOSPITAL

FRANKLIN GENERAL HOSPITAL

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**FRANKLIN GENERAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Charlie Brown	Chairperson	2006
Jan Siems	Secretary	2006
Allan Menning	Treasurer	2008
Doreen Petersen	Member	2006
Bruce Harris	Member	2008
Don Wohlford	Member	2010
Pamela Rusinack	Member	2010

Administration

Mark Klosterman	Chief Executive Officer
Dixie Kavars	Interim Chief Executive Officer
Shelly Craighton	Finance Manager
Chris Eckhoff	Director of Nursing/Assistant Administrator



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheet of the primary government of **Franklin General Hospital** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. 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 audit. The financial statements of the primary government of **Franklin General Hospital** as of and for the year ended June 30, 2005, were audited by other auditors whose report dated September 9, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of **Franklin General Hospital**. The financial statements do not include financial data for **Franklin General Hospital's** legally separate component unit (Franklin General Hospital Foundation), which accounting principles generally accepted in the United States of America require to be reported with the financial data of **Franklin General Hospital**.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the primary government of **Franklin General Hospital** as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because they do not include the financial data of the component unit of **Franklin General Hospital**, do not purport to, and do not, present fairly the financial position of **Franklin General Hospital**, as of June 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, 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.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 23 and 24 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
September 14, 2006

Franklin General Hospital

Management's Discussion and Analysis

This section of Franklin General Hospital's annual financial report presents management's analysis of the financial performance during the fiscal year that ended June 30, 2006. We encourage readers to read this analysis in conjunction with the subsequent audited financial statements.

Financial Highlights

- The Hospital's total assets exceeded total liabilities by \$10,492,016. This is an increase of \$965,683 or 10.1% from last fiscal year.
- The Hospital's outstanding debt totaled \$908,888, which is a decrease of \$240,923 from last fiscal year.
- The Hospital's total operating revenues increased \$579,402 or 5.9% to \$10,445,493, while operating expenses increased \$365,271 or 3.6% to \$10,384,900.
- The Hospital recorded income from operations of \$55,296, which is an increase of \$208,834 from last fiscal year.

Overview of the Financial Statements

The audited financial statements of the Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheet provides information about the Hospital's assets and liabilities. At June 30, 2006, the balance sheet reports total assets of \$13,308,472, total liabilities of \$2,816,456, and net assets of \$10,492,016.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. At June 30, 2006, these statements indicate total operating revenues of \$10,445,493 and total operating expenses of \$10,384,900. The operating income was \$55,296 in 2006, compared to an operating loss of (\$153,538) in 2005.

There are notes to the financial statements included in the audit report. There are also several supplementary schedules that provide the reader with detail about the source of the Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Capital Assets

As of June 30, 2006, the Hospital's capital assets (net of accumulated depreciation) totaled \$6,306,806. This investment in capital assets includes land, land improvements, buildings, equipment, and construction in progress.

Insuring Future Financial Success

Franklin General Hospital continues to work on significant improvements for the facility to include a building renovation and addition to the nursing facility. We are also embarking on a master facility plan to layout the future of the Hospital with regards to structure and services.

Franklin General Hospital has also implemented a POD strategy in the clinic to increase customer and provider satisfaction, while maintaining the high quality care the community of Hampton has become accustomed to. This will continue to be monitored to ensure success and possible expansion.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to Mark Klosterman, CEO, or Shelly Craighton, Finance Manager, at:

Franklin General Hospital
1720 Central Avenue East
Hampton, IA 50441-1859
Phone: (641) 456-5000

FRANKLIN GENERAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 2,572,659	\$ 2,784,326
Receivables		
Patient and resident, net of estimated uncollectibles of \$541,494 in 2006 and \$630,545 in 2005	1,291,746	1,321,576
Estimated third-party payor settlements	250,000	-
Succeeding year property tax	855,013	743,541
Other	113,205	224,674
Supplies	107,565	102,477
Prepaid expense	167,262	60,944
Total current assets	<u>5,357,450</u>	<u>5,237,538</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Restricted under debt agreements	185,738	181,800
Restricted under resident trust agreement	4,492	2,661
Internally designated for capital acquisition	1,267,598	1,250,193
Total assets limited as to use or restricted	<u>1,457,828</u>	<u>1,434,654</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>6,306,806</u>	<u>6,219,311</u>
OTHER ASSETS - Note 6		
Joint venture	112,113	94,087
Physician advances	74,275	74,275
Total other assets	<u>186,388</u>	<u>168,362</u>
Total assets	<u>\$ 13,308,472</u>	<u>\$ 13,059,865</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 105,369	\$ 90,923
Current portion of contribution payable - Note 11	-	133,333
Accounts payable		
Trade	185,975	245,006
Estimated third-party payor settlements	-	407,982
Affiliated organization	5,297	-
Accrued expenses		
Salaries and wages	80,182	68,630
Vacation	560,374	420,937
Payroll taxes and other	196,867	208,404
Interest	1,868	2,393
Deferred revenue for succeeding year property tax receivable	855,013	743,541
Total current liabilities	<u>1,990,945</u>	<u>2,321,149</u>
OTHER LIABILITIES		
Contribution payable - Note 11	-	133,334
Lease deposit	17,500	17,500
Residents' cash fund	4,492	2,661
Total other liabilities	<u>21,992</u>	<u>153,495</u>
LONG-TERM DEBT, less current maturities - Note 7	<u>803,519</u>	<u>1,058,888</u>
Total liabilities	<u>2,816,456</u>	<u>3,533,532</u>
NET ASSETS		
Invested in capital assets net of related debt	6,201,437	6,128,388
Restricted under debt agreement	185,738	181,800
Unrestricted	4,104,841	3,216,145
Total net assets	<u>10,492,016</u>	<u>9,526,333</u>
Total liabilities and net assets	<u>\$ 13,308,472</u>	<u>\$ 13,059,865</u>

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$295,859 in 2006 and \$301,448 in 2005) - Notes 2 and 3	\$ 10,202,428	\$ 9,631,550
Other operating revenues	<u>243,065</u>	<u>234,541</u>
TOTAL OPERATING REVENUES	<u>10,445,493</u>	<u>9,866,091</u>
OPERATING EXPENSES		
Salaries and wages	5,100,711	4,805,066
Supplies and other expenses	4,750,225	4,685,849
Depreciation	527,046	520,275
Interest	<u>6,918</u>	<u>8,439</u>
TOTAL OPERATING EXPENSES	<u>10,384,900</u>	<u>10,019,629</u>
OPERATING INCOME (LOSS) BEFORE AFFILIATION AGREEMENT	60,593	(153,538)
AFFILIATION AGREEMENT EXPENSE	<u>(5,297)</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>55,296</u>	<u>(153,538)</u>
NONOPERATING REVENUES (EXPENSES)		
Income on investment in joint venture	18,026	21,694
Tax revenue	770,148	749,071
Noncapital grants and contributions	8,834	(386,212)
Investment income	66,027	48,071
Loss on sale of property and equipment	(5,323)	-
Loss from Franklin Prairie Apartments	(11,855)	(20,003)
Other	<u>46,939</u>	<u>17,281</u>
NET NONOPERATING REVENUES	<u>892,796</u>	<u>429,902</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFER	948,092	276,364
Capital grants and contributions	52,014	38,725
Transfer to Foundation	<u>(34,423)</u>	<u>(32,174)</u>
INCREASE IN NET ASSETS	965,683	282,915
NET ASSETS BEGINNING OF YEAR	<u>9,526,333</u>	<u>9,243,418</u>
NET ASSETS END OF YEAR	<u>\$ 10,492,016</u>	<u>\$ 9,526,333</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 9,574,276	\$ 10,383,769
Payments of salaries and wages	(4,949,722)	(4,971,277)
Payments of supplies and other expenses	(4,932,199)	(4,553,751)
Other receipts and payments, net	<u>355,413</u>	<u>98,741</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>47,768</u>	<u>957,482</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions	8,834	12,348
Payments on contributions payable	(266,667)	(133,333)
Tax revenue	770,148	749,071
Transfer to Franklin General Hospital Foundation	(34,423)	(32,174)
Net income from Franklin Prairie Apartments, excluding interest expense	195,631	199,550
Other nonoperating revenue	<u>46,939</u>	<u>17,281</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>720,462</u>	<u>812,743</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(789,168)	(339,770)
Capital grants and contributions	52,014	38,725
Payments on long-term debt	(240,923)	(227,373)
Interest payments on long-term debt	<u>(63,651)</u>	<u>(76,709)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,041,728)</u>	<u>(605,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investment in joint venture	18,026	21,694
Decrease in investment in joint venture	-	9,759
Increase in assets limited as to use or restricted	(21,343)	(28,836)
Interest earned on investments	<u>65,148</u>	<u>47,901</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>61,831</u>	<u>50,518</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(211,667)</u>	1,215,616
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,784,326</u>	<u>1,568,710</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,572,659</u>	<u>\$ 2,784,326</u>

(continued)

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 55,296	\$ (153,538)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	527,046	520,275
Interest expense considered capital and related financing activity	6,918	8,439
Provision for bad debts	295,859	301,448
Changes to assets and liabilities		
Receivables	(153,681)	(339,746)
Estimated third-party payor settlements	(657,982)	654,717
Supplies	(5,088)	(5,686)
Prepaid expense	(106,318)	5,640
Accounts payable	(53,734)	25,834
Accrued expenses	<u>139,452</u>	<u>(59,901)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 47,768</u>	<u>\$ 957,482</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hospital is the county hospital of Franklin County (the Hospital) Iowa, organized under Chapter 347, of the 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, Dows, Latimer, and Dumont. The Hospital also owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company. The Hospital is exempt from income taxes as a political subdivision.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component 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. Franklin General Hospital Foundation is a component unit of the Hospital. However, the Hospital has elected to exclude the Foundation from these financial statements.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Measurement Focus and 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds 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 Procedure.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Hospital considers saving accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use or restricted.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Assets Limited as to Use or Restricted

Assets limited as to use or restricted 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 nonoperating revenue to the extent expended within the period.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for the Hospital's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	5-20 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Compensated Absences

Hospital employees accumulate a limited amount of earned, but unused, vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Deferred Revenue

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.

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 nonexchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. 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.

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$26,166 and \$29,717 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue depending on the timing of the charity determination.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

County Tax Revenues

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$67,570 and \$26,376, respectively.

NOTE 3 – NET PATIENT AND RESIDENT SERVICE REVENUE

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 is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2004. 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:

Hospital:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

Nursing Home:

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Other Payors:

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other 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.

A summary of net patient and resident service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient and resident service revenue	<u>\$ 13,517,859</u>	<u>\$ 13,182,243</u>
Contractual adjustments		
Medicare	(2,022,015)	(2,288,203)
Medicaid	(308,104)	(360,259)
Blue Cross	(268,685)	(244,711)
Other	<u>(420,768)</u>	<u>(356,072)</u>
Total contractual adjustments	<u>(3,019,572)</u>	<u>(3,249,245)</u>
Net patient and resident service revenue	10,498,287	9,932,998
Provision for bad debts	<u>(295,859)</u>	<u>(301,448)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 10,202,428</u>	<u>\$ 9,631,550</u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2006 and 2005, 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

At June 30, 2006 and 2005, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Checking and savings accounts	\$ 2,830,487	\$ 3,018,980
Certificates of deposit	1,200,000	1,200,000
Total deposits	<u>\$ 4,030,487</u>	<u>\$ 4,218,980</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 2,572,659	\$ 2,784,326
Assets limited as to use or restricted	1,457,828	1,434,654
	<u>\$ 4,030,487</u>	<u>\$ 4,218,980</u>

Maturity dates on certificates of deposit range from one to three years.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Summaries of capital assets for the years ended June 30, 2006 and 2005, are as follows:

	June 30, 2005				June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Land, Buildings, and Equipment					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	292,559	14,364	(1,768)	74,172	379,327
Building	6,958,411	7,754	-	-	6,966,165
Fixed equipment	2,899,537	17,103	(33,353)	30,043	2,913,330
Major movable equipment	2,643,656	40,431	(264,745)	136,009	2,555,351
Construction in progress	<u>105,395</u>	<u>691,491</u>	<u>-</u>	<u>(240,224)</u>	<u>556,662</u>
Total	<u>13,113,228</u>	<u>\$ 771,143</u>	<u>\$ (299,866)</u>	<u>\$ -</u>	<u>13,584,505</u>

(continued on next page)

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Accumulated depreciation					
Land improvements	\$ 248,004	\$ 10,749	\$ (1,768)	\$ -	\$ 256,985
Building	2,910,212	342,852	-	-	3,253,064
Fixed equipment	1,734,030	114,273	(33,352)	-	1,814,951
Major movable equipment	2,001,671	210,450	(259,422)	-	1,952,699
Total	6,893,917	\$ 678,324	\$ (294,542)	\$ -	7,277,699
Land, buildings, and equipment, net	\$ 6,219,311				\$ 6,306,806
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
Land, Buildings, and Equipment					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	292,559	-	-	-	292,559
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	40,535	64,860	-	-	105,395
Total	12,811,590	\$ 339,770	\$ (38,132)	\$ -	13,113,228
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	1,840,579	199,224	(38,132)	-	2,001,671
Total	6,260,496	\$ 671,553	\$ (38,132)	\$ -	6,893,917
Land, buildings, and equipment, net	\$ 6,551,094				\$ 6,219,311

NOTE 6 – OTHER ASSETS

Investment in Joint Venture

The joint venture represents a 40% investment in Mobile Radiology, LLC, a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$18,026 and \$21,694 in 2006 and 2005, respectively. The financial statements of the joint venture are available upon request from Mobile Radiology, LLC.

(continued on next page)

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2006 and 2005, is as follows:

	Balance			Balance	Amounts Due
	June 30, 2005	Additions	Deductions	June 30, 2006	Within One Year
Promissory note, Corn Belt Power	\$ 146,651	\$ -	\$ (25,057)	\$ 121,594	\$ 26,339
Noninterest bearing note, FREC	110,000	-	(20,000)	90,000	20,000
Promissory note, FCBA	893,160	-	(195,866)	697,294	59,030
Total long-term debt	<u>\$ 1,149,811</u>	<u>\$ -</u>	<u>\$ (240,923)</u>	<u>908,888</u>	<u>\$ 105,369</u>
Less current maturities				<u>(105,369)</u>	
Long-term debt, less current maturities				<u>\$ 803,519</u>	
	Balance			Balance	Amounts Due
	June 30, 2004	Additions	Deductions	June 30, 2005	Within One Year
Promissory note, Corn Belt Power	\$ 170,488	\$ -	\$ (23,837)	\$ 146,651	\$ 25,057
Noninterest 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>	1,149,811	<u>\$ 90,923</u>
Less current maturities				<u>(90,923)</u>	
Long-term debt, less current maturities				<u>\$ 1,058,888</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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Noninterest Bearing Note, FREC

The Hospital issued a noninterest 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 and the fire marshal renovation. 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, 2006, the Hospital paid an additional principal amount of \$150,000 on this note payable.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 105,369	\$ 49,205	\$ 154,574
2008	110,672	43,902	154,574
2009	116,331	38,243	154,574
2010	122,337	32,237	154,574
2011	94,454	26,252	120,706
2012-2016	359,725	49,726	409,451
	<u>\$ 908,888</u>	<u>\$ 239,565</u>	<u>\$ 1,148,453</u>

NOTE 8 – LEASES

The Hospital leases certain equipment under noncancellable long-term lease agreements. Total lease expense for the years ended June 30, 2006 and 2005, for all operating leases was \$36,650 and \$30,022, respectively.

NOTE 9 – 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 covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$278,376, \$266,985, and \$266,531, respectively, equal to the required contributions for each year.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 10 – RELATED PARTY TRANSACTIONS

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 Service Agreement with MMC-NI whereby MMC-NI provides professional medical services. Amounts paid to MMC-NI for the provision of these services amounted to \$492,317 and \$400,332 for the years ended June 30, 2006 and 2005, respectively.

Operating income 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, 2006, the Hospital has recorded a payable in accordance with the Master Affiliation Agreement for income shared with MMC-NI in the amount of \$5,297, which is reflected in accounts payable – affiliated organizations. No operating income or losses were shared by MMC-NI and the Hospital for the year ended June 30, 2005.

Management Services Agreement

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 \$211,319 and \$191,531 for the years ended June 30, 2006 and 2005, respectively.

Due to and from Affiliated Organization

As of June 30, 2006 and 2005, the Hospital's records reflect a due to MMC-NI of \$47,087 and \$60,409, 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 accounting principles generally accepted in the United States of America.

During the years ended June 30, 2006 and 2005, the Hospital recorded transfers to the Foundation of \$34,423 and \$32,174. These amounts represent expenses paid by the Hospital on behalf of the Foundation. Also during the years ended June 30, 2006 and 2005, the Hospital received \$25,035 and \$23,434 from the Foundation.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

A summary of the Foundation's assets, liabilities, and net assets as of June 30, 2006 and 2005, results of operations, and changes in net assets for the years then ended follows:

	<u>2006</u>	<u>2005</u>
Assets	\$ 704,031	\$ 733,025
Liabilities	\$ 26,912	\$ 109,007
Net assets	<u>677,119</u>	<u>624,018</u>
Total liabilities and net assets	<u>\$ 704,031</u>	<u>\$ 733,025</u>
Revenues	\$ 84,407	\$ 188,001
Expenses	<u>65,729</u>	<u>162,846</u>
Excess of revenues over expenses	18,678	25,155
Net assets beginning of year	624,018	566,689
Transfer from Franklin General Hospital	<u>34,423</u>	<u>32,174</u>
Net assets end of year	<u>\$ 677,119</u>	<u>\$ 624,018</u>

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 payment to be received is \$52,500 for the year ending June 30, 2007.

NOTE 11 – CONTINGENCIES

Contribution Payable

During the year ended June 30, 2005, the Hospital 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 was recognized as a contribution during 2005. During the years ended June 30, 2006 and 2005, the Hospital contributed \$266,667 and \$133,333 for the project.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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 and resident 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.

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.

NOTE 12 – RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft 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. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 13 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	35%	23%
Medicaid	10	9
Commercial insurance	27	27
Other third-party payors, patients, and residents	<u>28</u>	<u>41</u>
	<u>100%</u>	<u>100%</u>

FRANKLIN GENERAL HOSPITAL

FRANKLIN GENERAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 770,148	\$ -	\$ 770,148	\$ 743,541	\$ 26,607
Estimated other revenues/receipts	<u>10,620,155</u>	<u>(355,888)</u>	<u>10,264,267</u>	<u>10,916,487</u>	<u>(652,220)</u>
	11,390,303	(355,888)	11,034,415	11,660,028	(625,613)
Expenses/disbursements	<u>10,424,620</u>	<u>798,288</u>	<u>11,222,908</u>	<u>11,921,606</u>	<u>698,698</u>
Net	965,683	(1,154,176)	(188,493)	(261,578)	<u>\$ 73,085</u>
Balance beginning of year	<u>9,526,333</u>	<u>(5,307,353)</u>	<u>4,218,980</u>	<u>3,575,804</u>	
Balance end of year	<u>\$ 10,492,016</u>	<u>\$ (6,461,529)</u>	<u>\$ 4,030,487</u>	<u>\$ 3,314,226</u>	

**FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006**

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 resulting from the Hospital preparing a budget on the cash basis of accounting.

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. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2006.

FRANKLIN GENERAL HOSPITAL



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the primary government of Franklin General Hospital taken as a whole. The 2006 supplementary information is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information, except for the Schedule of Statistical Information on page 34 marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

The 2005 supplementary information is presented for purposes of additional analysis and is not a required part of the 2005 basic financial statements. Such information, except for the Schedule of Statistical Information on page 34 marked "unaudited," was subjected to the auditing procedures applied by other auditors in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
September 14, 2006

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005

	TOTAL	
	2006	2005
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 658,376	\$ 754,802
Swing-bed	249,465	262,698
Nursing facility	<u>2,048,660</u>	<u>1,881,171</u>
Total	<u>2,956,501</u>	<u>2,898,671</u>
OTHER PROFESSIONAL SERVICES		
Operating room	613,788	627,024
Anesthesiology	196,388	231,611
Radiology	1,622,278	1,549,920
Laboratory	1,970,884	1,775,739
Respiratory therapy	407,397	450,942
Physical therapy	411,418	392,399
Speech therapy	12,820	5,358
Occupational therapy	41,650	34,790
Enterostomal therapy	20,597	32,313
Electrocardiology	95,145	94,479
Medical and surgical supplies	505,886	538,041
Pharmacy	844,735	807,781
Cardiac rehabilitation	48,434	54,098
Infusion therapy	85,392	88,874
Clinics	2,544,005	2,457,718
Emergency services	588,733	568,287
Ambulance	<u>619,378</u>	<u>600,574</u>
Total	<u>10,628,928</u>	<u>10,309,948</u>
Charity care	<u>(67,570)</u>	<u>(26,376)</u>
Total patient and resident service revenue	<u>13,517,859</u>	<u>13,182,243</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(2,022,015)	(2,288,203)
Medicaid	(308,104)	(360,259)
Blue Cross	(268,685)	(244,711)
Other	<u>(420,768)</u>	<u>(356,072)</u>
Total contractual adjustments	<u>(3,019,572)</u>	<u>(3,249,245)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	<u>10,498,287</u>	9,932,998
PROVISION FOR BAD DEBTS	<u>(295,859)</u>	<u>(301,448)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 10,202,428</u>	<u>\$ 9,631,550</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 413,400	\$ 522,875	\$ 244,976	\$ 231,927
249,465	262,698	-	-
2,048,660	1,881,171	-	-
<u>2,711,525</u>	<u>2,666,744</u>	<u>244,976</u>	<u>231,927</u>
31,303	25,995	582,485	601,029
13,442	15,837	182,946	215,774
69,777	67,802	1,552,501	1,482,118
161,549	181,565	1,809,335	1,594,174
331,634	400,287	75,763	50,655
104,315	109,419	307,103	282,980
6,280	3,343	6,540	2,015
28,070	23,281	13,580	11,509
1,959	3,411	18,638	28,902
5,941	6,506	89,204	87,973
78,347	100,949	427,539	437,092
283,681	357,399	561,054	450,382
-	-	48,434	54,098
-	-	85,392	88,874
-	-	2,544,005	2,457,718
2,565	514	586,168	567,773
17,895	12,549	601,483	588,025
<u>1,136,758</u>	<u>1,308,857</u>	<u>9,492,170</u>	<u>9,001,091</u>
<u>\$ 3,848,283</u>	<u>\$ 3,975,601</u>	<u>\$ 9,737,146</u>	<u>\$ 9,233,018</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 87,365	\$ 87,422
Clinic rent income	38,394	39,347
Shared case manager	32,597	38,262
Dietary	29,974	27,948
Pharmacy rent	13,994	14,434
Ambulance	10,065	4,867
Physical therapy contracts	3,018	1,723
Medical record transcripts	1,748	1,806
Other	<u>25,910</u>	<u>18,732</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 243,065</u>	 <u>\$ 234,541</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 129,311	\$ 125,932
Supplies and other expenses	<u>5,124</u>	<u>6,788</u>
	<u>134,435</u>	<u>132,720</u>
ADULTS AND PEDIATRICS		
Salaries and wages	638,171	628,250
Supplies and other expenses	<u>41,882</u>	<u>38,961</u>
	<u>680,053</u>	<u>667,211</u>
NURSING FACILITY		
Salaries and wages	857,220	836,301
Supplies and other expenses	<u>31,733</u>	<u>29,426</u>
	<u>888,953</u>	<u>865,727</u>
OPERATING ROOM		
Salaries and wages	108,775	107,008
Supplies and other expenses	<u>79,413</u>	<u>78,265</u>
	<u>188,188</u>	<u>185,273</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>87,103</u>	<u>100,507</u>
RADIOLOGY		
Salaries and wages	199,625	183,307
Supplies and other expenses	<u>438,737</u>	<u>454,722</u>
	<u>638,362</u>	<u>638,029</u>
LABORATORY		
Salaries and wages	227,899	191,304
Supplies and other expenses	<u>346,262</u>	<u>343,661</u>
	<u>574,161</u>	<u>534,965</u>
RESPIRATORY THERAPY		
Salaries and wages	14,757	16,638
Supplies and other expenses	<u>24,461</u>	<u>20,881</u>
	<u>39,218</u>	<u>37,519</u>
PHYSICAL THERAPY		
Salaries and wages	155,213	143,071
Supplies and other expenses	<u>6,826</u>	<u>17,861</u>
	<u>162,039</u>	<u>160,932</u>
SPEECH THERAPY		
Supplies and other expenses	<u>11,155</u>	<u>5,391</u>

(continued)

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 18,801</u>	<u>\$ 19,396</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>5,243</u>	<u>10,293</u>
ELECTROCARDIOLOGY		
Salaries and wages	8,247	8,109
Supplies and other expenses	<u>8,398</u>	<u>11,442</u>
	<u>16,645</u>	<u>19,551</u>
PHARMACY		
Salaries and wages	26	-
Supplies and other expenses	<u>289,269</u>	<u>246,689</u>
	<u>289,295</u>	<u>246,689</u>
CENTRAL SUPPLY		
Supplies and other expenses	<u>136,634</u>	<u>122,498</u>
CENTRAL STERILE		
Salaries and wages	29,820	31,932
Supplies and other expenses	<u>5,254</u>	<u>5,551</u>
	<u>35,074</u>	<u>37,483</u>
CARDIAC REHABILITATION		
Salaries and wages	29,127	27,485
Supplies and other expenses	<u>6,102</u>	<u>2,924</u>
	<u>35,229</u>	<u>30,409</u>
INFUSION THERAPY		
Salaries and wages	9,180	10,158
Supplies and other expenses	<u>-</u>	<u>1,312</u>
	<u>9,180</u>	<u>11,470</u>
CLINICS		
Salaries and wages	1,388,616	1,253,961
Supplies and other expenses	<u>435,925</u>	<u>424,193</u>
	<u>1,824,541</u>	<u>1,678,154</u>
EMERGENCY SERVICES		
Salaries and wages	59,762	68,499
Supplies and other expenses	<u>203,927</u>	<u>205,340</u>
	<u>263,689</u>	<u>273,839</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
AMBULANCE		
Salaries and wages	\$ 109,694	\$ 108,555
Supplies and other expenses	<u>80,465</u>	<u>105,847</u>
	<u>190,159</u>	<u>214,402</u>
SOCIAL SERVICES		
Salaries and wages	42,954	41,784
Supplies and other expenses	<u>271</u>	<u>314</u>
	<u>43,225</u>	<u>42,098</u>
MEDICAL RECORDS		
Salaries and wages	127,265	113,417
Supplies and other expenses	<u>28,464</u>	<u>28,352</u>
	<u>155,729</u>	<u>141,769</u>
DIETARY		
Salaries and wages	235,357	219,710
Supplies and other expenses	<u>152,876</u>	<u>149,815</u>
	<u>388,233</u>	<u>369,525</u>
REPAIRS AND MAINTENANCE		
Supplies and other expenses	<u>83,105</u>	<u>97,342</u>
OPERATION OF PLANT		
Salaries and wages	127,937	118,297
Supplies and other expenses	<u>222,076</u>	<u>200,892</u>
	<u>350,013</u>	<u>319,189</u>
HOUSEKEEPING		
Salaries and wages	127,104	127,655
Supplies and other expenses	<u>23,802</u>	<u>18,629</u>
	<u>150,906</u>	<u>146,284</u>
LAUNDRY AND LINEN		
Salaries and wages	20,107	17,878
Supplies and other expenses	<u>113,318</u>	<u>102,242</u>
	<u>133,425</u>	<u>120,120</u>
MARKETING		
Salaries and wages	28,507	27,364
Supplies and other expenses	<u>23,376</u>	<u>21,315</u>
	<u>51,883</u>	<u>48,679</u>

(continued)

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PURCHASING		
Salaries and wages	\$ 33,910	\$ 32,287
Supplies and other expenses	<u>863</u>	<u>3,692</u>
	<u>34,773</u>	<u>35,979</u>
DIABETIC EDUCATION		
Salaries and wages	13,699	12,928
Supplies and other expenses	<u>1,230</u>	<u>169</u>
	<u>14,929</u>	<u>13,097</u>
SPECIALTY CLINIC		
Salaries and wages	<u>4,107</u>	<u>5,338</u>
COMMUNITY EDUCATION		
Salaries and wages	17,160	14,310
Supplies and other expenses	<u>-</u>	<u>169</u>
	<u>17,160</u>	<u>14,479</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	357,161	333,588
Supplies and other expenses	<u>760,772</u>	<u>711,016</u>
	<u>1,117,933</u>	<u>1,044,604</u>
UNASSIGNED EXPENSES		
Depreciation	527,046	520,275
Interest	6,918	8,439
Employee benefits	<u>1,077,358</u>	<u>1,099,954</u>
	<u>1,611,322</u>	<u>1,628,668</u>
TOTAL OPERATING EXPENSES	<u>\$ 10,384,900</u>	<u>\$ 10,019,629</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL
ACCOUNTS
JUNE 30, 2006 AND 2005

ANALYSIS OF AGING Days Since Discharge	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,133,905	61.85%	\$ 1,183,208	60.61%
31 to 60 days	256,622	14.00%	275,154	14.10%
61 to 90 days	94,668	5.16%	108,238	5.54%
91 days and over	<u>348,045</u>	<u>18.99%</u>	<u>385,520</u>	<u>19.75%</u>
	1,833,240	100.00%	1,952,120	100.00%
Less: Allowance for doubtful accounts	193,625		291,740	
Allowance for contractual adjustments	<u>347,869</u>		<u>338,804</u>	
Net	<u>\$ 1,291,746</u>		<u>\$ 1,321,576</u>	
Net patient and resident service revenue (net of provision for bad debts) per calendar day	<u>\$ 27,952</u>		<u>\$ 26,388</u>	
Days of net revenue in net accounts receivable at year end	<u>46</u>		<u>50</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Beginning Balance		\$ <u>291,740</u>	\$ <u>225,672</u>
Add:			
Provision for bad debts		295,859	301,448
Recoveries previously written off		<u>141,059</u>	<u>126,554</u>
		<u>436,918</u>	<u>428,002</u>
Less:			
Accounts written off		<u>(535,033)</u>	<u>(361,934)</u>
Ending Balance		<u>\$ 193,625</u>	<u>\$ 291,740</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
SUPPLIES		
Medical/surgical	\$ 11,071	\$ 10,098
Laboratory	29,805	26,685
Pharmacy	<u>66,689</u>	<u>65,694</u>
 Total supplies	 <u>\$ 107,565</u>	 <u>\$ 102,477</u>
 PREPAID EXPENSE		
Insurance	\$ 105,058	\$ 12,759
Rent	4,200	4,200
Dues and other	<u>58,004</u>	<u>43,985</u>
 Total prepaid expense	 <u>\$ 167,262</u>	 <u>\$ 60,944</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)**

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute	741	1,005
Swing bed	1,069	1,137
Nursing facility	18,100	17,708
ADMISSIONS		
Acute	201	259
Swing bed	102	103
Nursing facility	35	28
DISCHARGES		
Acute	206	257
Swing bed	100	104
Nursing facility	37	22
AVERAGE LENGTH OF STAY		
Acute	3.60	3.91
Swing bed	10.69	10.93
BEDS		
Acute	25	25
Nursing facility	52	52
OCCUPANCY PERCENTAGE		
Acute	8.1%	11.0%
Nursing facility	95.4%	93.3%



CPAs & BUSINESS ADVISORS

**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**

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheet of **Franklin General Hospital** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of **Franklin General Hospital** as of June 30, 2005, were audited by other auditors whose report dated September 9, 2005, expressed an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of **Franklin General Hospital** in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in Part I as item I-A-06 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 error 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of **Franklin General Hospital** 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We also noted a certain additional matter that we reported to management in a separate letter dated September 14, 2006.

This report, a public record by law, 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Franklin General Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 14, 2006

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2006 AND 2005**

Part I: Findings Related to Financial Statements:

Reportable Condition

I-A-06 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realized that with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No expenditures of the Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-06 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.

II-G-06 Publication of Bills Allowed and Salaries – Chapter 347.13(14) 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 of Iowa.

FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2006 AND 2005

Part II: Other Findings Related to Required Statutory Reporting: (continued)

- II-H-06 Chapter 28E Organization – The Hospital has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has contracted for an audit under the provisions of Chapter 28E.