

FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007



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>		
Allan Menning	Chairperson	2008
Jan Siems	Secretary	2012
Bruce Harris	Treasurer	2008
John Trewin	Member	2012
Linda Kuehner	Member	2012
April Hemmes	Member	2008
Pamela Rusinack	Member	2010
<u>Administration</u>		
Mark Klosterman	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 sheets of the primary government of Franklin General Hospital as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

The financial statements referred to above include only the primary government of Franklin General Hospital. The financial statements do not include the 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 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years 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, 2008 and 2007, 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.

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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 Accounting 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 non-operating 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 non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, 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 24 and 25 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
October 20, 2008

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, 2008. 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 \$13,226,525. This is an increase of \$1,433,670 or 12.2% from last fiscal year.
- The Hospital's capital assets (net of accumulated depreciation) increased \$2,209,254 or 27.3% to \$10,298,393.
- The Hospital's outstanding debt totaled \$2,400,000, which is an increase of \$1,745,678 from last fiscal year.
- The Hospital's total operating revenues increased \$1,458,412 or 12.5% to \$13,131,536, while operating expenses increased \$1,562,247 or 13.9% to \$12,781,671.
- The Hospital recorded income from operations (before affiliation agreement) of \$349,865, which is a decrease of \$103,835 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, 2008, the balance sheet reports total assets of \$18,173,137, total liabilities of \$4,946,612, and net assets of \$13,226,525.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. At June 30, 2008, these statements indicate total operating revenues of \$13,131,536 and total operating expenses of \$12,781,671. Operating income (before affiliation agreement) was \$349,865.

There are notes to the financial statements included in the audit report. There are also several supplementary schedules that provide the reader with details 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, 2008, the Hospital's capital assets (net of accumulated depreciation) totaled \$10,298,393. This investment in capital assets includes land, land improvements, buildings, equipment, and construction in progress.

Insuring Future Financial Success

Franklin General Hospital (FGH) has been busy over the last year. The nursing facility addition/renovation project started in December 2006 with final date of substantial completion being June 6, 2008. FGH has also proceeded with the Master Facility Plan (MFP). We are now in the design development phase. We have hired Dean Snyder Construction as our Construction Manager to help with the pre-construction, construction, and post-construction phases. We are working with Public Financial Management out of Des Moines, IA regarding a financing strategy. They will help FGH with all documents and negotiations throughout the entire project. An estimated start date for construction of the MFP is estimated to be the second quarter of calendar 2009.

Franklin General Hospital has also added a number of new services to increase service lines as well as meet community need and satisfaction. Also, FGH added a new physician who started in August 2008. This is the third of three new physicians that have started in three years. The goal for FGH is to exceed our customer's expectation with regards to satisfaction, safety, and quality. FGH will continue to monitor these fundamental measures to ensure there is continued growth for the communities of Franklin County.

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 4,246,658	\$ 2,600,445
Receivables		
Patient and resident, net of estimated uncollectibles		
of \$976,000 in 2008 and \$943,000 in 2007	1,919,375	1,965,132
Estimated third-party payor settlements	285,000	-
Succeeding year property tax	932,201	855,226
Other	101,540	125,403
Supplies	126,120	115,152
Prepaid expense	120,334	148,046
Total current assets	<u>7,731,228</u>	<u>5,809,404</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Restricted under debt agreements	-	190,977
Restricted under resident trust agreement	2,680	4,328
Internally designated for capital acquisition	47,643	1,226,708
Total assets limited as to use or restricted	<u>50,323</u>	<u>1,422,013</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>10,298,393</u>	<u>8,089,139</u>
OTHER ASSETS - Note 6		
Investment in joint venture	30,918	129,258
Physician advances	62,275	74,275
Total other assets	<u>93,193</u>	<u>203,533</u>
Total assets	<u>\$ 18,173,137</u>	<u>\$ 15,524,089</u>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 2,400,000	\$ 118,625
Accounts payable		
Trade	440,815	251,319
Construction	319,684	579,199
Estimated third-party payor settlements	-	310,000
Affiliated organization - Note 10	17,853	226,850
Accrued expenses		
Salaries and wages	137,856	99,164
Vacation	522,707	539,821
Payroll taxes and other	154,396	192,110
Interest	920	1,395
Deferred revenue for succeeding year property tax receivable	932,201	855,226
Total current liabilities	<u>4,926,432</u>	<u>3,173,709</u>
OTHER LIABILITIES		
Lease deposit	17,500	17,500
Residents' cash fund	2,680	4,328
Total other liabilities	<u>20,180</u>	<u>21,828</u>
LONG-TERM DEBT, less current maturities - Note 7	<u>-</u>	<u>535,697</u>
Total liabilities	<u>4,946,612</u>	<u>3,731,234</u>
NET ASSETS		
Invested in capital assets, net of related debt	7,898,393	7,434,817
Restricted under debt agreement	-	190,977
Unrestricted	5,328,132	4,167,061
Total net assets	<u>13,226,525</u>	<u>11,792,855</u>
Total liabilities and net assets	<u>\$ 18,173,137</u>	<u>\$ 15,524,089</u>

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$402,598 in 2008 and \$365,951 in 2007) - Notes 2 and 3	\$ 12,887,294	\$ 11,463,588
Other operating revenues	<u>244,242</u>	<u>209,536</u>
TOTAL OPERATING REVENUES	<u>13,131,536</u>	<u>11,673,124</u>
OPERATING EXPENSES		
Salaries and wages	5,661,494	5,195,745
Supplies and other expenses	6,321,642	5,463,089
Depreciation	793,862	555,181
Interest expense	<u>4,673</u>	<u>5,409</u>
TOTAL OPERATING EXPENSES	<u>12,781,671</u>	<u>11,219,424</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	349,865	453,700
AFFILIATION AGREEMENT EXPENSE	<u>(17,853)</u>	<u>(226,850)</u>
OPERATING INCOME	<u>332,012</u>	<u>226,850</u>
NON-OPERATING REVENUES		
Income on investment in joint venture	37,660	17,145
Tax revenue	854,502	855,345
Non-capital grants and contributions	11,777	24,606
Investment income	62,890	102,841
Gain from Franklin Prairie Apartments	55,099	38,762
Other	<u>7,072</u>	<u>6,744</u>
NET NON-OPERATING REVENUES	<u>1,029,000</u>	<u>1,045,443</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFER	1,361,012	1,272,293
Capital grants and contributions	105,532	61,083
Transfer to Franklin General Hospital Foundation	<u>(32,874)</u>	<u>(32,537)</u>
INCREASE IN NET ASSETS	1,433,670	1,300,839
NET ASSETS, BEGINNING OF YEAR	<u>11,792,855</u>	<u>10,492,016</u>
NET ASSETS, END OF YEAR	<u>\$ 13,226,525</u>	<u>\$ 11,792,855</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 12,338,051	\$ 11,350,202
Payments of salaries and wages	(5,639,916)	(5,197,316)
Payments of supplies and other expenses	(6,639,481)	(4,816,971)
Other receipts and payments, net	<u>268,105</u>	<u>192,843</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>326,759</u>	<u>1,528,758</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-capital grants and contributions	11,777	24,606
Tax revenue	854,502	855,345
Transfer to Franklin General Hospital Foundation	(32,874)	(32,537)
Net income from Franklin Prairie Apartments, excluding interest expense and depreciation	212,641	215,763
Other non-operating revenue	<u>7,072</u>	<u>6,744</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,053,118</u>	<u>1,069,921</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(3,129,861)	(2,470,389)
Capital grants and contributions	105,532	61,083
Proceeds from issuance of long-term debt	2,400,000	-
Payments on long-term debt	(654,322)	(254,566)
Interest payments on long-term debt	<u>(35,945)</u>	<u>(50,008)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,314,596)</u>	<u>(2,713,880)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in physician advances	12,000	-
Decrease in assets limited as to use or restricted	1,370,042	40,146
Distribution from joint venture	136,000	-
Interest earned on investments	<u>62,890</u>	<u>102,841</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,580,932</u>	<u>142,987</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,646,213</u>	27,786
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,600,445</u>	<u>2,572,659</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,246,658</u>	<u>\$ 2,600,445</u>

(continued)

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 332,012	\$ 226,850
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	793,862	555,181
Interest expense considered capital and related financing activity	4,673	5,409
Provision for bad debts	402,598	365,951
Changes to assets and liabilities		
Receivables	(332,978)	(1,056,030)
Estimated third-party payor settlements	(595,000)	560,000
Supplies	(10,968)	(7,587)
Prepaid expense	27,712	19,216
Accounts payable	(279,016)	866,096
Accrued expenses	<u>(16,136)</u>	<u>(6,328)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 326,759</u>	<u>\$ 1,528,758</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Franklin General Hospital (Hospital) is the county hospital of Franklin County Iowa and is 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.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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 sheets display 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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.

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 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident 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 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, 2008 AND 2007

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. Delinquent property tax receivable represents unpaid taxes for current and prior years. 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 non-operating 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 are recorded at cost. Land, buildings, and equipment donated for Hospital 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 class of 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, 2008.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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 non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as non-operating 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$35,151 and \$31,324 for advertising costs for the years ended June 30, 2008 and 2007, 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 automatically 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, 2008 AND 2007

County Tax Revenues

Taxes are included in non-operating 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 items from the 2007 financial statements have been reclassified to conform to the current year presentation.

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, 2008 and 2007, were \$83,923 and \$76,972, respectively. The estimated costs of the charges foregone, based on an overall cost to charge ratio calculation, for the years ended June 30, 2008 and 2007, were \$58,000 and \$51,000, 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, 2006. 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, 2005.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 13%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2008, and 40% and 14%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2007.

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Total patient and resident service revenue	<u>\$ 18,207,042</u>	<u>\$ 16,516,650</u>
Contractual adjustments		
Medicare	(3,424,002)	(3,402,498)
Medicaid	(502,737)	(362,304)
Blue Cross	(428,803)	(384,996)
Other	(561,608)	(537,313)
Total contractual adjustments	<u>(4,917,150)</u>	<u>(4,687,111)</u>
Net patient and resident service revenue	<u>13,289,892</u>	11,829,539
Provision for bad debts	<u>(402,598)</u>	<u>(365,951)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 12,887,294</u>	<u>\$ 11,463,588</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2008 and 2007, 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.

At June 30, 2008 and 2007, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2008</u>	<u>2007</u>
Checking and savings accounts	\$ 4,296,981	\$ 2,816,942
Certificates of deposit	-	1,205,516
Total deposits	<u>\$ 4,296,981</u>	<u>\$ 4,022,458</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 4,246,658	\$ 2,600,445
Assets limited as to use or restricted	<u>50,323</u>	<u>1,422,013</u>
	<u>\$ 4,296,981</u>	<u>\$ 4,022,458</u>

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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Summaries of capital assets for the years ended June 30, 2008 and 2007, are as follows:

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Land, Buildings, and Equipment					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	379,327	-	-	7,725	387,052
Building	6,966,165	-	-	1,880,998	8,847,163
Fixed equipment	3,466,109	-	-	2,237,580	5,703,689
Major movable equipment	2,746,265	65,825	(314,477)	694,495	3,192,108
Construction in progress	2,190,073	3,064,036	-	(4,820,798)	433,311
Total	<u>15,961,609</u>	<u>\$ 3,129,861</u>	<u>\$ (314,477)</u>	<u>\$ -</u>	<u>18,776,993</u>
Accumulated depreciation					
Land improvements	271,615	\$ 15,146	\$ -	\$ -	286,761
Building	3,570,231	377,345	-	-	3,947,576
Fixed equipment	1,942,734	250,062	-	-	2,192,796
Major movable equipment	2,087,890	278,054	(314,477)	-	2,051,467
Total	<u>7,872,470</u>	<u>\$ 920,607</u>	<u>\$ (314,477)</u>	<u>\$ -</u>	<u>8,478,600</u>
Land, buildings, and equipment, net	<u>\$ 8,089,139</u>				<u>\$ 10,298,393</u>
	June 30, 2006				June 30, 2007
	Balance	Additions	Deductions	Transfers	Balance
Land, Buildings, and Equipment					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	379,327	-	-	-	379,327
Building	6,966,165	-	-	-	6,966,165
Fixed equipment	2,913,330	-	(10,853)	563,632	3,466,109
Major movable equipment	2,555,351	177,217	(82,432)	96,129	2,746,265
Construction in progress	556,662	2,293,172	-	(659,761)	2,190,073
Total	<u>13,584,505</u>	<u>\$ 2,470,389</u>	<u>\$ (93,285)</u>	<u>\$ -</u>	<u>15,961,609</u>
Accumulated depreciation					
Land improvements	256,985	\$ 14,630	\$ -	\$ -	271,615
Building	3,253,064	317,167	-	-	3,570,231
Fixed equipment	1,814,951	138,636	(10,853)	-	1,942,734
Major movable equipment	1,952,699	217,623	(82,432)	-	2,087,890
Total	<u>7,277,699</u>	<u>\$ 688,056</u>	<u>\$ (93,285)</u>	<u>\$ -</u>	<u>7,872,470</u>
Land, buildings, and equipment, net	<u>\$ 6,306,806</u>				<u>\$ 8,089,139</u>

(continued on next page)

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

The majority of construction in progress at June 30, 2008, represents costs incurred for electronic health records. The electronic health records project was completed in July of 2008. The estimated remaining cost to complete the project is \$100,000, which will be funded through hospital operations. The remaining costs in construction in progress are for preliminary architect fees related to a master facility plan, for which the estimated cost is \$15,000,000 and tentative completion date is December 2012.

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 \$37,660 and \$17,145 in 2008 and 2007, respectively. During the year ending June 30, 2008, the Hospital received an equity distribution of \$136,000. The financial statements of the joint venture are available upon request from Mobile Radiology, LLC.

Physician Advances

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

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2008 and 2007, is as follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Promissory note, Corn Belt Power	\$ 95,255	\$ -	\$ (95,255)	\$ -	\$ -
Non-interest bearing note, FREC	70,000	-	(70,000)	-	-
Promissory note, FCBA	489,067	-	(489,067)	-	-
Promissory note, UBT	-	2,400,000	-	2,400,000	2,400,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	\$ 654,322	\$ 2,400,000	\$ (654,322)	2,400,000	\$ 2,400,000
Less current maturities				(2,400,000)	
Long-term debt, less current maturities				<u> </u> \$ -	

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts Due</u> <u>Within One Year</u>
Promissory note, Corn Belt Power	\$ 121,594	\$ -	\$ (26,339)	\$ 95,255	\$ 27,675
Noninterest bearing note, FREC	90,000	-	(20,000)	70,000	20,000
Promissory note, FCBA	<u>697,294</u>	<u>-</u>	<u>(208,227)</u>	<u>489,067</u>	<u>70,950</u>
Total long-term debt	<u>\$ 908,888</u>	<u>\$ -</u>	<u>\$ (254,566)</u>	654,322	<u>\$ 118,625</u>
Less current maturities				<u>(118,625)</u>	
Long-term debt, less current maturities				<u>\$ 535,697</u>	

Promissory Note, Corn Belt Power Cooperative

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. The promissory note payable was paid off during June of 2008.

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. The promissory note payable was paid off during June of 2008.

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 renovations required by the fire marshal. 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, 2007, the Hospital paid an additional principal amount of \$150,000 on this note payable. Effective March 1, 2007, the interest rate increased to 6.94%. The promissory note payable was paid off during June of 2008.

Promissory Note, UBT

The Hospital issued a 3.45% promissory note payable in the amount of \$2,400,000 to United Bank and Trust Company on June 26, 2008, to pay down existing debt and help fund the nursing facility remodeling project. The outstanding balance of the note shall be repaid on June 1, 2009. Interest shall be payable on December 1, 2008 and at maturity.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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>
2009	\$ 2,400,000	\$ 75,900	\$ 2,475,900

NOTE 8 – LEASES

The Hospital leases certain equipment under non-cancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for all operating leases for the years ended June 30, 2008 and 2007, was \$213,532 and \$172,928, respectively.

Minimum future lease payments for the non-cancellable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2009	\$ 173,830
2010	173,830
2011	173,830
2012	173,830
2013	<u>144,858</u>
	<u>\$ 840,178</u>

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 3.90% of their annual covered salary, and the Hospital is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary, and the Hospital was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$336,286, \$295,927, and \$278,376, respectively, equal to the required contributions for each year.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 10 – RELATED PARTY TRANSACTIONS

Master Affiliation Agreement

Franklin General Hospital 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, the Hospital 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 \$1,546,904 and \$833,188 for the years ended June 30, 2008 and 2007, 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 years ended June 30, 2008 and 2007, the Hospital has recorded a payable in accordance with the Master Affiliation Agreement for income shared with MMC-NI in the amount of \$17,853 and \$226,850, respectively, which is reflected in accounts payable – affiliated organization.

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 management and other services received were \$217,816 and \$229,398 for the years ended June 30, 2008 and 2007, respectively.

Due to and from Affiliated Organization

As of June 30, 2008 and 2007, the Hospital's records reflect a due to MMC-NI of \$135,819 and \$116,741, 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, 2008 and 2007, the Hospital recorded transfers to the Foundation of \$32,874 and \$32,537. These amounts represent expenses paid by the Hospital on behalf of the Foundation. Also during the years ended June 30, 2008 and 2007, the Hospital received \$108,473 and \$52,256 from the Foundation.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A summary of the Foundation's assets, liabilities, and net assets as of June 30, 2008 and 2007, results of operations, and changes in net assets for the years then ended follows:

	<u>2008</u>	<u>2007</u>
Assets	<u>\$ 727,761</u>	<u>\$ 777,565</u>
Liabilities	<u>\$ 21,748</u>	<u>\$ 22,833</u>
Net assets	<u>706,013</u>	<u>754,732</u>
 Total liabilities and net assets	 <u>\$ 727,761</u>	 <u>\$ 777,565</u>
Revenues	<u>\$ 66,910</u>	<u>\$ 134,331</u>
Expenses	<u>148,504</u>	<u>89,255</u>
 Revenues in excess of (less than) expenses	 (81,594)	 45,076
Net assets, beginning of year	<u>754,732</u>	<u>677,119</u>
Transfer from Franklin General Hospital	<u>32,875</u>	<u>32,537</u>
Net assets, end of year	<u>\$ 706,013</u>	<u>\$ 754,732</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 \$18,583 through September 2011. Future minimum rent payments to be received are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2009	\$ 222,996
2010	222,996
2011	222,996
2012	<u>55,749</u>
	<u>\$ 724,737</u>

NOTE 11 – CONTINGENCIES

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 annual 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, 2008 AND 2007

Excess Liability Umbrella Insurance

The Hospital also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$1 million per occurrence and an annual aggregate limit of \$1 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.

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 and resident 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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. 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 whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	38%	37%
Medicaid	7	11
Commercial insurance	24	28
Other third-party payors, patients, and residents	<u>31</u>	<u>24</u>
	<u>100%</u>	<u>100%</u>

REQUIRED SUPPLEMENTARY INFORMATION



**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, 2008

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 854,502	\$ -	\$ 854,502	\$ 855,226	\$ (724)
Estimated other revenues/receipts	<u>13,411,566</u>	<u>1,606,805</u>	<u>15,018,371</u>	<u>14,625,690</u>	<u>392,681</u>
	14,266,068	1,606,805	15,872,873	15,480,916	391,957
Expenses/disbursements	<u>12,832,398</u>	<u>2,765,952</u>	<u>15,598,350</u>	<u>16,066,608</u>	<u>468,258</u>
Net	1,433,670	(1,159,147)	274,523	(585,692)	<u>\$ 860,215</u>
Balance, beginning of year	<u>11,792,855</u>	<u>(7,770,397)</u>	<u>4,022,458</u>	<u>3,985,480</u>	
Balance, end of year	<u>\$ 13,226,525</u>	<u>\$ (8,929,544)</u>	<u>\$ 4,296,981</u>	<u>\$ 3,399,788</u>	

**FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008**

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 the Hospital 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, 2008.

For the year ended June 30, 2008, the Hospital's expenditures did not exceed the amount budgeted.



**FRANKLIN GENERAL
HOSPITAL**



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

Our audits were 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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 35 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits 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.

Eide Bailly LLP

Dubuque, Iowa
October 20, 2008

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FRANKLIN GENERAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	TOTAL	
	2008	2007
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,096,222	\$ 1,038,376
Swing-bed	267,849	309,374
Nursing facility	2,389,704	2,127,021
Subtotal	<u>3,753,775</u>	<u>3,474,771</u>
OTHER PROFESSIONAL SERVICES		
Operating room	737,090	736,267
Anesthesiology	426,228	364,000
Radiology	2,556,440	1,996,346
Laboratory	2,485,750	2,223,524
Respiratory therapy	420,681	382,071
Physical therapy	799,665	589,525
Speech therapy	18,659	18,781
Occupational therapy	93,920	86,128
Enterostomal therapy	9,093	20,262
Electrocardiology	57,058	59,835
Medical and surgical supplies	939,744	846,272
Pharmacy	921,579	1,265,960
Cardiac rehabilitation	117,312	60,257
Infusion therapy	73,376	104,230
Clinics	3,363,632	3,017,077
Emergency services	814,355	686,671
Ambulance	702,608	661,645
Subtotal	<u>14,537,190</u>	<u>13,118,851</u>
Total	18,290,965	16,593,622
Charity care	<u>(83,923)</u>	<u>(76,972)</u>
Total patient and resident service revenue	<u>18,207,042</u>	<u>16,516,650</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(3,424,002)	(3,402,498)
Medicaid	(502,737)	(362,304)
Blue Cross	(428,803)	(384,996)
Other	(561,608)	(537,313)
Total contractual adjustments	<u>(4,917,150)</u>	<u>(4,687,111)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	13,289,892	11,829,539
PROVISION FOR BAD DEBTS	<u>(402,598)</u>	<u>(365,951)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 12,887,294</u>	<u>\$ 11,463,588</u>

INPATIENT		OUTPATIENT	
2008	2007	2008	2007
\$ 739,815	\$ 694,769	\$ 356,407	\$ 343,607
267,849	309,374	-	-
<u>2,389,704</u>	<u>2,127,021</u>	<u>-</u>	<u>-</u>
<u>3,397,368</u>	<u>3,131,164</u>	<u>356,407</u>	<u>343,607</u>
13,115	23,814	723,975	712,453
12,100	11,730	414,128	352,270
108,857	89,055	2,447,583	1,907,291
248,943	260,011	2,236,807	1,963,513
216,081	221,757	204,600	160,314
154,202	157,022	645,463	432,503
5,725	6,469	12,934	12,312
57,067	46,703	36,853	39,425
863	1,881	8,230	18,381
4,452	4,354	52,606	55,481
295,464	220,194	644,280	626,078
394,402	431,292	527,177	834,668
-	-	117,312	60,257
-	-	73,376	104,230
-	-	3,363,632	3,017,077
3,243	2,415	811,112	684,256
24,465	11,180	678,143	650,465
<u>1,538,979</u>	<u>1,487,877</u>	<u>12,998,211</u>	<u>11,630,974</u>
\$ 4,936,347	\$ 4,619,041	\$ 13,354,618	\$ 11,974,581

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 98,177	\$ 85,386
Dietary	46,059	35,872
Clinic rent income	28,247	31,095
Pharmacy rent	14,214	14,214
Physical therapy contracts	12,290	6,387
Ambulance	5,184	3,057
Medical record transcripts	1,615	1,561
Other	<u>38,456</u>	<u>31,964</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 244,242</u>	 <u>\$ 209,536</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 113,904	\$ 96,131
Supplies and other expenses	<u>4,663</u>	<u>6,585</u>
	<u>118,567</u>	<u>102,716</u>
ADULTS AND PEDIATRICS		
Salaries and wages	908,197	702,619
Supplies and other expenses	<u>78,392</u>	<u>66,999</u>
	<u>986,589</u>	<u>769,618</u>
NURSING FACILITY		
Salaries and wages	957,157	868,620
Supplies and other expenses	<u>75,802</u>	<u>50,127</u>
	<u>1,032,959</u>	<u>918,747</u>
OPERATING ROOM		
Salaries and wages	95,684	73,703
Supplies and other expenses	<u>86,827</u>	<u>85,791</u>
	<u>182,511</u>	<u>159,494</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>160,571</u>	<u>137,985</u>
RADIOLOGY		
Salaries and wages	207,196	188,403
Supplies and other expenses	<u>615,044</u>	<u>459,322</u>
	<u>822,240</u>	<u>647,725</u>
LABORATORY		
Salaries and wages	236,467	223,433
Supplies and other expenses	<u>331,524</u>	<u>352,601</u>
	<u>567,991</u>	<u>576,034</u>
RESPIRATORY THERAPY		
Salaries and wages	11,792	12,189
Supplies and other expenses	<u>26,339</u>	<u>43,264</u>
	<u>38,131</u>	<u>55,453</u>
PHYSICAL THERAPY		
Salaries and wages	135,914	176,443
Supplies and other expenses	<u>138,281</u>	<u>9,836</u>
	<u>274,195</u>	<u>186,279</u>
SPEECH THERAPY		
Supplies and other expenses	<u>12,261</u>	<u>14,003</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 38,678</u>	<u>\$ 33,037</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>6,533</u>	<u>9,728</u>
ELECTROCARDIOLOGY		
Salaries and wages	7,742	8,645
Supplies and other expenses	<u>5,125</u>	<u>5,479</u>
	<u>12,867</u>	<u>14,124</u>
PHARMACY		
Supplies and other expenses	<u>295,286</u>	<u>355,681</u>
CENTRAL SUPPLY		
Supplies and other expenses	<u>232,870</u>	<u>225,210</u>
CENTRAL STERILE		
Salaries and wages	21,952	24,315
Supplies and other expenses	<u>5,545</u>	<u>5,704</u>
	<u>27,497</u>	<u>30,019</u>
CARDIAC REHABILITATION		
Salaries and wages	39,208	30,454
Supplies and other expenses	<u>11,047</u>	<u>7,243</u>
	<u>50,255</u>	<u>37,697</u>
INFUSION THERAPY		
Salaries and wages	<u>8,065</u>	<u>14,050</u>
CLINICS		
Salaries and wages	1,469,202	1,418,866
Supplies and other expenses	<u>977,046</u>	<u>687,062</u>
	<u>2,446,248</u>	<u>2,105,928</u>
EMERGENCY SERVICES		
Salaries and wages	89,876	68,430
Supplies and other expenses	<u>230,716</u>	<u>222,953</u>
	<u>320,592</u>	<u>291,383</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
AMBULANCE		
Salaries and wages	\$ 126,520	\$ 108,379
Supplies and other expenses	<u>92,459</u>	<u>73,973</u>
	<u>218,979</u>	<u>182,352</u>
SOCIAL SERVICES		
Salaries and wages	49,342	44,004
Supplies and other expenses	<u>415</u>	<u>1,525</u>
	<u>49,757</u>	<u>45,529</u>
MEDICAL RECORDS		
Salaries and wages	137,360	140,356
Supplies and other expenses	<u>38,515</u>	<u>28,441</u>
	<u>175,875</u>	<u>168,797</u>
DIETARY		
Salaries and wages	253,255	244,584
Supplies and other expenses	<u>183,607</u>	<u>164,106</u>
	<u>436,862</u>	<u>408,690</u>
REPAIRS AND MAINTENANCE		
Supplies and other expenses	<u>98,944</u>	<u>115,040</u>
OPERATION OF PLANT		
Salaries and wages	144,081	134,313
Supplies and other expenses	<u>264,481</u>	<u>229,274</u>
	<u>408,562</u>	<u>363,587</u>
HOUSEKEEPING		
Salaries and wages	129,619	122,605
Supplies and other expenses	<u>22,645</u>	<u>19,735</u>
	<u>152,264</u>	<u>142,340</u>
LAUNDRY AND LINEN		
Salaries and wages	18,023	20,112
Supplies and other expenses	<u>106,130</u>	<u>104,845</u>
	<u>124,153</u>	<u>124,957</u>
MARKETING		
Salaries and wages	27,732	27,844
Supplies and other expenses	<u>22,833</u>	<u>19,331</u>
	<u>50,565</u>	<u>47,175</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
PURCHASING		
Salaries and wages	\$ 45,234	\$ 35,792
Supplies and other expenses	<u>3,671</u>	<u>2,066</u>
	<u>48,905</u>	<u>37,858</u>
PATIENT EDUCATION		
Salaries and wages	17,048	13,640
Supplies and other expenses	<u>490</u>	<u>416</u>
	<u>17,538</u>	<u>14,056</u>
SPECIALTY CLINIC		
Salaries and wages	<u>5,045</u>	<u>3,933</u>
COMMUNITY EDUCATION		
Salaries and wages	13,098	16,850
Supplies and other expenses	<u>272</u>	<u>-</u>
	<u>13,370</u>	<u>16,850</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	392,781	377,032
Supplies and other expenses	<u>824,290</u>	<u>754,843</u>
	<u>1,217,071</u>	<u>1,131,875</u>
UNASSIGNED EXPENSES		
Depreciation	793,862	555,181
Interest	4,673	5,409
Employee benefits	<u>1,330,340</u>	<u>1,170,884</u>
	<u>2,128,875</u>	<u>1,731,474</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,781,671</u>	<u>\$ 11,219,424</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2008 AND 2007**

ANALYSIS OF AGING	2008		2007	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,380,194	47.67%	\$ 1,294,846	44.53%
31 to 60 days	502,131	17.34%	495,950	17.05%
61 to 90 days	224,977	7.77%	349,219	12.01%
91 days and over	788,035	27.22%	768,117	26.41%
	2,895,337	100.00%	2,908,132	100.00%
Less: Allowance for doubtful accounts	292,332		230,000	
Allowance for contractual adjustments	683,630		713,000	
Net	\$ 1,919,375		\$ 1,965,132	
Net patient and resident service revenue (net of provision for bad debts) per calendar day	\$ 35,308		\$ 31,407	
Days of net revenue in net accounts receivable at year end	54		63	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2008	2007
Beginning Balance	\$ 230,000	\$ 193,625
Add:		
Provision for bad debts	402,598	365,951
Recoveries previously written off	176,923	198,029
	579,521	563,980
Less:		
Accounts written off	(517,189)	(527,605)
Ending Balance	\$ 292,332	\$ 230,000

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPLIES		
Pharmacy	\$ 71,574	\$ 76,546
Laboratory	40,816	27,909
Medical/surgical	<u>13,730</u>	<u>10,697</u>
 Total supplies	 <u>\$ 126,120</u>	 <u>\$ 115,152</u>
 PREPAID EXPENSE		
Insurance	\$ 64,127	\$ 81,119
Dues and other	52,007	62,727
Rent	<u>4,200</u>	<u>4,200</u>
 Total prepaid expense	 <u>\$ 120,334</u>	 <u>\$ 148,046</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)**

	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Acute	889	924
Swing-bed	837	1,032
Nursing facility	18,064	17,819
ADMISSIONS		
Acute	264	263
Swing-bed	92	98
Nursing facility	27	33
DISCHARGES		
Acute	263	261
Swing-bed	90	98
Nursing facility	25	33
AVERAGE LENGTH OF STAY		
Acute	3.38	3.54
Swing-bed	9.30	10.53
BEDS		
Acute	25	25
Nursing facility	52	52
OCCUPANCY PERCENTAGE		
Acute	9.7%	10.1%
Nursing facility	95.2%	93.9%
OUTPATIENT VISITS		
	13,903	13,820
ER VISITS		
	2,480	2,253
CLINIC VISITS		
Hampton	24,060	23,507
Dows	869	878
Latimer	981	988
Dumont	1,166	1,197
Totals	<u>27,076</u>	<u>26,570</u>



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 sheets of Franklin General Hospital as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 20, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the 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, 2008, 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 and Responses. 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.

The Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the Hospital in a separate letter dated October 20, 2008.

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 the 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
October 20, 2008

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 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. This is not an unusual condition in organizations of your size.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls, and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Franklin General Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-08 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Franklin General Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to the Financial Statements: (continued)

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the Hospital’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008, did not exceed the amount budgeted.
- II-B-08 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-08 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-08 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-08 Deposits and Investments – No instances of non-compliance 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-08 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 published a schedule of bills allowed and a schedule of salaries paid as required by the Code.
- II-H-08 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.



CPAs & BUSINESS ADVISORS

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the financial statements of Franklin General Hospital (Hospital) for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Hospital. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you and management on September 15, 2008, and in accordance to our engagement letter to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Hospital during the year for which there is lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient and resident receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient and resident receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospital’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Other Comments

We have included additional comments regarding the Hospital’s operations as well as an additional comment for information purposes only. These comments are not a result of an in-depth study of any specific areas but are based on observations made during the course of our audit.

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

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Franklin General Hospital.

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

Dubuque, Iowa
October 20, 2008

xc: Mr. Mark Klosterman, CEO

FRANKLIN GENERAL HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

Segregation of Duties and Compensating Controls over Accounting Procedures

We realize that an optimal segregation of duties in organizations of your size is difficult. However, during our review of Franklin General Hospital's internal controls related to accounting functions, we identified some areas where other compensating controls or monitoring procedures could be implemented to obtain the maximum internal control possible under the circumstances. Those recommendations are as follows:

Incompatible Duties Related to the Purchasing and Accounts Payable Functions

It is our understanding that the Materials Manager has the ability to purchase supplies. This employee also has the ability to approve invoices and has access to the accounts payable system. In addition, the software allows electronic signatures to be printed on the checks. As a result, it is possible that one individual could order and receive goods and pay the invoice without anyone else being aware of the transaction. To strengthen controls over cash disbursements, we recommend segregating these duties so that the Materials Manager cannot perform all of these functions. During 2008 the Hospital hired an additional employee to perform the accounts payable functions; however, the Materials Manager still serves as a back-up for accounts payable functions.

Controls Over Credit Card Purchases

The Hospital maintains a corporate credit card for use by certain employees to assist in completing their assigned job functions. It is our understanding that the Materials Manager reviews the monthly credit card statements and only items with corresponding documentation are to be approved for payment. It is also our understanding that the Chief Executive Officer (CEO) is to approve the credit card statements. During our review of credit card expenditures, we noted charges on the credit card statements that did not include documentation of business purpose. We also noted where the CEO's written approval was not indicated. To strengthen internal controls over credit card expenditures and to reduce the risk of improper use of the corporate credit card, we recommend that documentation of business purpose be provided for all credit card expenditures and that all credit card statements indicate written approval.

Controls Over Cash Disbursements

It is our understanding that the department managers are to use purchase orders when they order supplies and the shipped order is compared to the original purchase order by the department manager. The invoice(s) are then distributed to the appropriate managers for approval. The manager is to code and initial their approval for payment, then return the invoice(s) to the Accounts Payable Clerk. During our review of expenditures, we noted some invoices that were not supported by purchase orders, as well as invoices that did not contain written approval. To strengthen internal controls over cash disbursements, we recommend that the Hospital follow the policies they have adopted.

Reconciliation of Bank Accounts

During the year ended June 30, 2008, adequate procedures were not in place to ensure an accurate and timely reconciliation of the cafeteria bank account to the general ledger. Failure to reconcile bank accounts represents a weakness in internal control over cash. A reconciliation of the account was provided to us subsequent to field work. However, we recommend that the Finance Manager review the reconciliation on a monthly basis to ensure that the account is being reconciled and agrees with the general ledger. Management assures us that going forward such reconciliations will be completed accurately and timely.

FRANKLIN GENERAL HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

The following additional comment is provided for informational purposes only.

Revised Guidelines on Good Governance for Tax Exempt Entities

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document “Governance and Related Topics – 501(c)(3) Organizations,” at the following link: http://www.irs.gov/pub/irs-tege/governance_practices.pdf. While tax law does not mandate the guidelines, they are a clear indication of the IRS’ strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

The IRS intends to monitor the organizations’ practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990.

Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing the Hospital’s governance practices now, the Hospital will be prepared to respond to the governance-related questions on the 2008 Form 990, if applicable, and portray a positive image to the IRS and the public.