

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008



**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>		
Allan Menning	Chairperson	2014
Jan Siems	Secretary	2012
John Trewin	Treasurer	2012
John Byrne	Member	2014
Linda Kuehner	Member	2012
April Hemmes	Member	2010
Pamela Rusinack	Member	2010
<u>Administration</u>		
Mark Klosterman	Chief Executive Officer	
Shelly Craighton	Finance Manager	
Chris Eckhoff	Director of Nursing/Assistant Administrator	



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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheets of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of June 30, 2009 and 2008, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), 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.

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, 2009 and 2008, 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.

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 14, 2009, 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 audits.

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Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 27 and 28 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.

Eide Sully LLP

Dubuque, Iowa
October 14, 2009

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, 2009. We encourage readers to consider this analysis in conjunction with the subsequent audited financial statements.

Financial Highlights

- The Hospital's total assets exceeded total liabilities by \$14,679,187. This is an increase of \$1,452,662 or 11.0% from last fiscal year. In 2008, the Hospital's total assets exceeded total liabilities by \$13,226,525. This was an increase of \$1,433,670 or 12.2% from fiscal year 2007.
- The Hospital's capital assets (net of accumulated depreciation) increased \$742,251 or 7.2% to \$11,040,644. In 2008, 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 \$2,558,133, which is an increase of \$158,133 from last fiscal year. In 2008, the Hospital's outstanding debt totaled \$2,400,000, which was an increase of \$1,745,678 from 2007.
- The Hospital's total operating revenues increased \$1,438,881 or 11.0% to \$14,570,417, while total operating expenses increased \$1,536,477 or 12.0% to \$14,318,148. In 2008, the Hospital's total operating revenues increased \$1,458,412 or 12.5% to \$13,131,536, while total operating expenses increased \$1,562,247 or 13.9% to \$12,781,671.
- The Hospital recorded operating income of \$252,269, which is a decrease of \$79,743 from last fiscal year. In 2008, the Hospital recorded operating income (before affiliation agreement) of \$349,865, which was a decrease of \$103,835 from 2007.

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, 2009, the balance sheet reports total assets of \$20,142,865, total liabilities of \$5,463,678, and total net assets of \$14,679,187. At June 30, 2008, the balance sheet reported total assets of \$18,173,137, total liabilities of \$4,946,612, and total net assets of \$13,226,525.

The statement of revenues, expenses, and changes in net assets provides information on the Hospital's revenues and expenses. At June 30, 2009, this statement indicates total operating revenues of \$14,570,417 and total operating expenses of \$14,318,148. Operating income was \$252,269. At June 30, 2008, this statement indicated 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, 2009 and 2008, the Hospital's capital assets (net of accumulated depreciation) totaled \$11,040,644 and \$10,298,393, respectively. 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. FGH has also proceeded with the Master Facility Plan (MFP). We broke ground in May of 2009 on what is slated to be a 3-year construction project. We have secured financing through four avenues. First is a construction note with local and regional banks. Second, we received a loan from Franklin County REC and Corn Belt. Third is a capital campaign, which is scheduled to kick off within the Hospital in October 2009 and to the public in the first quarter of 2010. Finally, FGH will contribute equity in the form of cash.

Unfortunately, Franklin General Hospital lost one of its physicians, and one of our mid-levels has indicated her desire to go part time. FGH is currently recruiting for a PA-c. We have had several interviews and are hoping to get someone on board by January 2010. Discussions are also starting with the medical staff regarding the addition of another physician. The goal for FGH is to exceed our customers' expectations 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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 3,158,973	\$ 4,246,658
Receivables		
Patient and resident, net of estimated uncollectibles		
of \$925,000 in 2009 and \$976,000 in 2008	1,849,336	1,919,375
Estimated third-party payor settlements	-	285,000
Succeeding year property tax	1,088,555	932,201
Other	128,210	101,540
Supplies	128,783	126,120
Prepaid expense	113,736	120,334
Total current assets	<u>6,467,593</u>	<u>7,731,228</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Restricted under resident trust agreement	5,968	2,680
Internally designated for capital acquisition	<u>2,537,822</u>	<u>47,643</u>
Total assets limited as to use or restricted	<u>2,543,790</u>	<u>50,323</u>
CAPITAL ASSETS, net - Note 5	<u>11,040,644</u>	<u>10,298,393</u>
OTHER ASSETS - Note 6		
Investment in joint venture	40,563	30,918
Physician advances	<u>50,275</u>	<u>62,275</u>
Total other assets	<u>90,838</u>	<u>93,193</u>
Total assets	<u>\$ 20,142,865</u>	<u>\$ 18,173,137</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ -	\$ 2,400,000
Accounts payable		
Trade	419,688	440,815
Construction	318,409	319,684
Estimated third-party payor settlements	235,000	-
Affiliated organization - Note 10	-	17,853
Accrued expenses		
Salaries and wages	153,435	137,856
Vacation	523,722	522,707
Payroll taxes and other	143,268	154,396
Interest	-	920
Deferred revenue for succeeding year property tax receivable	<u>1,088,555</u>	<u>932,201</u>
Total current liabilities	<u>2,882,077</u>	<u>4,926,432</u>
OTHER LIABILITIES		
Lease deposit	17,500	17,500
Residents' cash fund	<u>5,968</u>	<u>2,680</u>
Total other liabilities	<u>23,468</u>	<u>20,180</u>
LONG-TERM DEBT, less current maturities - Note 7	<u>2,558,133</u>	<u>-</u>
Total liabilities	<u>5,463,678</u>	<u>4,946,612</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,482,511	7,898,393
Unrestricted	<u>6,196,676</u>	<u>5,328,132</u>
Total net assets	<u>14,679,187</u>	<u>13,226,525</u>
Total liabilities and net assets	<u>\$ 20,142,865</u>	<u>\$ 18,173,137</u>

FRANKLIN GENERAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 56,114	\$ 80,948
Certificates of deposit	230,737	127,508
Investment in mutual funds	217,292	287,156
Interest receivable	507	410
Total current assets	<u>504,650</u>	<u>496,022</u>
ASSETS LIMITED AS TO USE OR RESTRICTED		
Beneficial interest in net assets of Community Foundation	<u>167,816</u>	<u>231,739</u>
Total assets	<u>\$ 672,466</u>	<u>\$ 727,761</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Annuity obligation	\$ 25,523	\$ 18,750
Other liabilities	37	2,998
Total current liabilities	<u>25,560</u>	<u>21,748</u>
NET ASSETS		
Unrestricted	391,089	435,623
Temporarily restricted	88,001	38,652
Permanently restricted	<u>167,816</u>	<u>231,738</u>
Total net assets	<u>646,906</u>	<u>706,013</u>
Total liabilities and net assets	<u>\$ 672,466</u>	<u>\$ 727,761</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$695,584 in 2009 and \$402,598 in 2008) - Notes 2 and 3	\$ 14,391,393	\$ 12,887,294
Other operating revenues	179,024	244,242
TOTAL OPERATING REVENUES	<u>14,570,417</u>	<u>13,131,536</u>
OPERATING EXPENSES		
Salaries and wages	5,706,314	5,661,494
Employee benefits	1,343,564	1,330,340
Supplies and other expenses	6,209,923	4,991,302
Depreciation	975,547	793,862
Interest expense	82,800	4,673
TOTAL OPERATING EXPENSES	<u>14,318,148</u>	<u>12,781,671</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	252,269	349,865
AFFILIATION AGREEMENT EXPENSE	-	(17,853)
OPERATING INCOME	<u>252,269</u>	<u>332,012</u>
NON-OPERATING REVENUES (EXPENSES)		
Income on investment in joint venture	29,718	37,660
Tax revenue	932,797	854,502
Non-capital grants and contributions	18,443	11,777
Investment income	99,919	62,890
Loss on disposal of capital assets	(34,961)	-
Gain from Franklin Prairie Apartments	83,277	55,099
Other	4,328	7,072
NET NON-OPERATING REVENUES	<u>1,133,521</u>	<u>1,029,000</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFER		
Capital grants and contributions	92,083	105,532
Transfer to Franklin General Hospital Foundation	(25,211)	(32,874)
INCREASE IN NET ASSETS	1,452,662	1,433,670
NET ASSETS, BEGINNING OF YEAR	<u>13,226,525</u>	<u>11,792,855</u>
NET ASSETS, END OF YEAR	<u>\$ 14,679,187</u>	<u>\$ 13,226,525</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions	\$ 88,131	\$ 86,296	\$ -	\$ 174,427
Investment loss	(49,250)	-	(63,922)	(113,172)
Total revenues	<u>38,881</u>	<u>86,296</u>	<u>(63,922)</u>	<u>61,255</u>
EXPENSES				
Gifts to Franklin General Hospital	32,936	33,002	-	65,938
Professional fees	2,918	-	-	2,918
Foundation coordinator	22,034	-	-	22,034
Supplies and other	43,602	-	-	43,602
Total expenses	<u>101,490</u>	<u>33,002</u>	<u>-</u>	<u>134,492</u>
Revenues in excess of (less than) expenses before other changes	(62,609)	53,294	(63,922)	(73,237)
OTHER CHANGES				
Change in value of split-interest agreement	(11,081)	-	-	(11,081)
Transfer of net assets	3,945	(3,945)	-	-
Transfer from Franklin General Hospital	25,211	-	-	25,211
CHANGE IN NET ASSETS	<u>(44,534)</u>	<u>49,349</u>	<u>(63,922)</u>	<u>(59,107)</u>
NET ASSETS, BEGINNING OF YEAR	<u>435,623</u>	<u>38,652</u>	<u>231,738</u>	<u>706,013</u>
NET ASSETS, END OF YEAR	<u>\$ 391,089</u>	<u>\$ 88,001</u>	<u>\$ 167,816</u>	<u>\$ 646,906</u>

See notes to financial statements.

2008

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 64,689	\$ 35,137	\$ -	\$ 99,826
<u>(12,480)</u>	<u>-</u>	<u>(20,436)</u>	<u>(32,916)</u>
<u>52,209</u>	<u>35,137</u>	<u>(20,436)</u>	<u>66,910</u>
60,270	48,203	-	108,473
5,002	-	-	5,002
27,244	-	-	27,244
<u>7,784</u>	<u>-</u>	<u>-</u>	<u>7,784</u>
<u>100,300</u>	<u>48,203</u>	<u>-</u>	<u>148,503</u>
(48,091)	(13,066)	(20,436)	(81,593)
-	-	-	-
-	-	-	-
<u>32,874</u>	<u>-</u>	<u>-</u>	<u>32,874</u>
(15,217)	(13,066)	(20,436)	(48,719)
<u>450,840</u>	<u>51,718</u>	<u>252,174</u>	<u>754,732</u>
<u>\$ 435,623</u>	<u>\$ 38,652</u>	<u>\$ 231,738</u>	<u>\$ 706,013</u>

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 14,981,432	\$ 12,338,051
Payments of salaries and wages	(5,689,720)	(5,639,916)
Payments of supplies and other expenses	(7,600,935)	(6,639,481)
Other receipts and payments, net	<u>154,000</u>	<u>269,330</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,844,777</u>	<u>327,984</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-capital grants and contributions	18,443	11,777
Tax revenue	931,151	853,277
Transfer to Franklin General Hospital Foundation	(25,211)	(32,874)
Net income from Franklin Prairie Apartments, excluding interest expense and depreciation	210,022	212,641
Other non-operating revenue	<u>4,328</u>	<u>7,072</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,138,733</u>	<u>1,051,893</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,881,805)	(3,129,861)
Proceeds from sale of capital assets	2,300	-
Capital grants and contributions	92,083	105,532
Proceeds from issuance of long-term debt	2,558,133	2,400,000
Payments on long-term debt	(2,400,000)	(654,322)
Interest payments on long-term debt	<u>(83,720)</u>	<u>(35,945)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,713,009)</u>	<u>(1,314,596)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in physician advances	12,000	12,000
(Increase) decrease in assets limited as to use or restricted	(2,490,179)	1,370,042
Distribution from joint venture	20,074	136,000
Interest earned on investments	<u>99,919</u>	<u>62,890</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(2,358,186)</u>	<u>1,580,932</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,087,685)	1,646,213
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,246,658</u>	<u>2,600,445</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,158,973</u>	<u>\$ 4,246,658</u>

(continued)

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 252,269	\$ 332,012
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	975,547	793,862
Interest expense considered capital and related financing activity	82,800	4,673
Provision for bad debts	695,584	402,598
Changes to assets and liabilities		
Receivables	(650,569)	(331,753)
Estimated third-party payor settlements	520,000	(595,000)
Supplies	(2,663)	(10,968)
Prepaid expense	6,598	27,712
Accounts payable	(40,255)	(279,016)
Accrued expenses	<u>5,466</u>	<u>(16,136)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,844,777</u>	<u>\$ 327,984</u>

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (59,107)	\$ (48,719)
Changes in assets and liabilities		
Interest receivable	(97)	2,056
Annuity obligation	6,773	(3,977)
Other liabilities	<u>(2,961)</u>	<u>2,892</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(55,392)</u>	<u>(47,748)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in assets limited as to use or restricted	63,923	20,436
Decrease in investment in mutual funds	69,864	34,879
Maturities of certificates of deposit	328,059	206,645
Purchase of certificates of deposit	<u>(431,288)</u>	<u>(161,645)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>30,558</u>	<u>100,315</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,834)	52,567
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>80,948</u>	<u>28,381</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 56,114</u>	<u>\$ 80,948</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 (Foundation) is a legally separate, tax-exempt component unit of the Hospital. It is organized under the provisions of the Internal Revenue Service Code Section 501(c)(3). The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its operations and programs. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Hospital.

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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

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 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 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

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 restricted under resident trust agreement and assets which have been internally designated by the Hospital's Board of Trustees. 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.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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 capital assets are as follows:

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

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009.

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 the 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 and non-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 \$34,730 and \$35,151 for advertising costs for the years ended June 30, 2009 and 2008, respectively.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

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.

Subsequent Events

The Hospital has evaluated subsequent events through October 14, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 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 AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$72,599 and \$83,923 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon an overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$49,000 and \$58,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2007.

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, 2006.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 12%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2009, and 49% and 13%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2008. The net patient and resident service revenue for the year ended June 30, 2009, increased approximately \$192,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient and resident service revenue	<u>\$ 20,905,474</u>	<u>\$ 18,207,042</u>
Contractual adjustments		
Medicare	(4,361,336)	(3,424,002)
Medicaid	(566,238)	(502,737)
Blue Cross	(587,334)	(428,803)
Other	<u>(303,589)</u>	<u>(561,608)</u>
Total contractual adjustments	<u>(5,818,497)</u>	<u>(4,917,150)</u>
Net patient and resident service revenue	15,086,977	13,289,892
Provision for bad debts	<u>(695,584)</u>	<u>(402,598)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 14,391,393</u>	<u>\$ 12,887,294</u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2009 and 2008, 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, 2009 and 2008, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	<u>\$ 3,189,415</u>	<u>\$ 4,296,981</u>
Certificates of deposit	<u>2,513,347</u>	<u>-</u>
Total deposits	<u>\$ 5,702,762</u>	<u>\$ 4,296,981</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 3,158,973	\$ 4,246,658
Assets limited as to use or restricted	<u>2,543,790</u>	<u>50,323</u>
	<u>\$ 5,702,763</u>	<u>\$ 4,296,981</u>

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2009 and 2008, was as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	387,052	-	(110,113)	71,873	348,812
Building	8,847,163	-	(176,999)	-	8,670,164
Fixed equipment	5,703,689	-	(145,879)	84,914	5,642,724
Major movable equipment	3,192,108	106,323	(362,997)	536,705	3,472,139
Construction in progress	433,311	1,775,486	-	(693,492)	1,515,305
Total	<u>18,776,993</u>	<u>\$ 1,881,809</u>	<u>\$ (795,988)</u>	<u>\$ -</u>	<u>19,862,814</u>
Accumulated depreciation					
Land improvements	286,761	\$ 22,141	\$ (110,069)	\$ -	198,833
Building	3,947,576	406,730	(166,289)	-	4,188,017
Fixed equipment	2,192,796	261,460	(141,109)	-	2,313,147
Major movable equipment	2,051,467	411,961	(341,255)	-	2,122,173
Total	<u>8,478,600</u>	<u>\$ 1,102,292</u>	<u>\$ (758,722)</u>	<u>\$ -</u>	<u>8,822,170</u>
Capital assets, net	<u>\$ 10,298,393</u>				<u>\$ 11,040,644</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
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>
Capital assets, net	<u>\$ 8,089,139</u>				<u>\$ 10,298,393</u>

The majority of construction in progress at June 30, 2009, represents costs incurred for the master facility plan. The total estimated cost of the master facility plan is \$15,000,000, which will be funded through debt financing, equity contributions, and a capital campaign. The tentative completion date is 2012.

NOTE 6 – OTHER ASSETS

Investment in Joint Venture

The joint venture represents a 25% investment in Mobile Radiology, LLC, a mobile radiology unit limited liability corporation. The Hospital's investment percentage was 40% through December 31, 2008. Effective January 1, 2009, one of the owners withdrew from the LLC and was replaced by another hospital. When the new hospital joined, the existing partners agreed to change all investors' ownership to 25%. 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 \$29,718 and \$37,660 in 2009 and 2008, respectively. During the years ended June 30, 2009 and 2008, the Hospital received equity distributions of \$20,074 and \$136,000, respectively. The financial statements of the joint venture are available upon request from Mobile Radiology, LLC.

Physician Advances

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

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2009 and 2008, is as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Promissory note, bank	\$ 2,400,000	\$ -	\$ (2,400,000)	\$ -	\$ -
Promissory note, bank	<u>-</u>	<u>2,558,133</u>	<u>-</u>	<u>2,558,133</u>	<u>-</u>
Total long-term debt	<u>\$ 2,400,000</u>	<u>\$ 2,558,133</u>	<u>\$ (2,400,000)</u>	<u>2,558,133</u>	<u>\$ -</u>
Less current maturities				<u>-</u>	
Long-term debt, less current maturities				<u>\$ 2,558,133</u>	
	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Promissory note, Corn Belt Power	\$ 95,255	\$ -	\$ (95,255)	\$ -	\$ -
Noninterest bearing note, FREC	70,000	-	(70,000)	-	-
Promissory note, FCBA	489,067	-	(489,067)	-	-
Promissory note, UBT	<u>-</u>	<u>2,400,000</u>	<u>-</u>	<u>2,400,000</u>	<u>2,400,000</u>
Total long-term debt	<u>\$ 654,322</u>	<u>\$ 2,400,000</u>	<u>\$ (654,322)</u>	<u>2,400,000</u>	<u>\$ 2,400,000</u>
Less current maturities				<u>(2,400,000)</u>	
Long-term debt, less current maturities				<u>\$ -</u>	

Promissory Note, UBT

The Hospital issued a 4.625% promissory note payable in the amount of \$2,558,133 to United Bank and Trust Company on June 30, 2009, to pay down existing debt and help fund the master facility project. The Hospital may draw up to \$11,000,000 through June 30, 2012. Interest shall be payable beginning on August 1, 2009 and monthly thereafter on the first day of each month until the note is repaid in full. Principal payments shall be payable beginning on August 1, 2012 and monthly thereafter on the first day of each month through July 1, 2029. The interest rate shall reset every five years, beginning July 1, 2014, to an interest rate equal to the thirty-day average of the five-year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.40%. At each reset date, the change in interest rate shall be subject to a 150-basis point cap per reset date and a floor of 4.125%. If on any reset date, the five-year Federal Home Loan Bank Des Moines fixed rate advance rate is not available, the interest shall equal the average adjusted constant maturity rate of the five-year U.S. Treasury notes as published weekly in the Wall Street Journal for the four weeks preceding the reset date, plus 2.15%.

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 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 was repaid in June of 2009.

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>
2010	\$ -	\$ 118,314	\$ 118,314
2011	-	118,314	118,314
2012	-	118,314	118,314
2013	92,459	107,018	199,477
2014	105,798	111,813	217,611
2015-2019	608,857	497,200	1,106,057
2020-2024	766,925	321,132	1,088,057
2025-2029	984,094	122,098	1,106,192
	<u>\$ 2,558,133</u>	<u>\$ 1,514,203</u>	<u>\$ 4,072,336</u>

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, 2009 and 2008, was \$234,501 and \$216,005, respectively.

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

<u>Year Ending June 30,</u>	<u>Total</u>
2010	\$ 234,125
2011	234,125
2012	234,125
2013	144,588
	<u>\$ 846,963</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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Plan members are required to contribute 4.10% of their annual covered salary, and the Hospital is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$378,940, \$377,601, and \$335,346, respectively, equal to the required contributions for each year.

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 \$1,704,237 and \$1,546,904 for the years ended June 30, 2009 and 2008, respectively.

Through June 30, 2008, operating gains and losses from the consolidated operations of the Hospital services and MMC-NI services were shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains allocated to MMC-NI amounted to \$17,853 for the year ended June 30, 2008, for the various services and distributions related to these agreements.

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 \$416,950 and \$217,816 for the years ended June 30, 2009 and 2008, respectively.

Due to and from Affiliated Organization

As of June 30, 2009 and 2008, the Hospital's records reflect a due to MMC-NI of \$145,570 and \$135,819, respectively, for the various services provided and is included in accounts payable on the balance sheet.

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>
2010	\$ 222,996
2011	222,996
2012	<u>55,749</u>
	<u>\$ 501,741</u>

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

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.

Health Care Legislation and Regulation

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	33%	38%
Medicaid	8%	7%
Commercial insurance	22%	24%
Other third-party payors, patients, and residents	37%	31%
	<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)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 932,797	\$ (1,646)	\$ 931,151	\$ 932,201	\$ (1,050)
Estimated other revenues/receipts	<u>14,863,224</u>	<u>889,510</u>	<u>15,752,734</u>	<u>14,629,129</u>	<u>1,123,605</u>
	15,796,021	887,864	16,683,885	15,561,330	1,122,555
Expenses/disbursements	<u>14,343,359</u>	<u>934,744</u>	<u>15,278,103</u>	<u>15,370,692</u>	<u>92,589</u>
Net	1,452,662	(46,880)	1,405,782	190,638	<u>\$ 1,215,144</u>
Balance, beginning of year	<u>13,226,525</u>	<u>(8,929,544)</u>	<u>4,296,981</u>	<u>2,335,766</u>	
Balance, end of year	<u>\$ 14,679,187</u>	<u>\$ (8,976,424)</u>	<u>\$ 5,702,763</u>	<u>\$ 2,526,404</u>	

**FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

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 perspective 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, 2009.

For the year ended June 30, 2009, 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 Schedules of Statistical Information on page 38 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
October 14, 2009

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FRANKLIN GENERAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,098,812	\$ 1,096,222
Swing-bed	403,078	267,849
Nursing facility	2,516,921	2,389,704
Subtotal	<u>4,018,811</u>	<u>3,753,775</u>
OTHER PROFESSIONAL SERVICES		
Operating room	797,019	737,090
Anesthesiology	470,524	426,228
Radiology	3,099,672	2,556,440
Laboratory	2,776,970	2,485,750
Respiratory therapy	375,862	420,681
Physical therapy	1,159,120	799,665
Speech therapy	46,645	18,659
Occupational therapy	108,522	93,920
Enterostomal therapy	42,281	9,093
Electrocardiology	81,788	57,058
Medical and surgical supplies	952,562	939,744
Pharmacy	1,238,030	921,579
Cardiac rehabilitation	130,860	117,312
Infusion therapy	163,000	73,376
Clinics	3,841,674	3,363,632
Emergency services	858,207	814,355
Ambulance	816,526	702,608
Subtotal	<u>16,959,262</u>	<u>14,537,190</u>
Total	20,978,073	18,290,965
Charity care	<u>(72,599)</u>	<u>(83,923)</u>
Total patient and resident service revenue	<u>20,905,474</u>	<u>18,207,042</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(4,361,336)	(3,424,002)
Medicaid	(566,238)	(502,737)
Blue Cross	(587,334)	(428,803)
Other	(303,589)	(561,608)
Total contractual adjustments	<u>(5,818,497)</u>	<u>(4,917,150)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	15,086,977	13,289,892
PROVISION FOR BAD DEBTS	<u>(695,584)</u>	<u>(402,598)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 14,391,393</u>	<u>\$ 12,887,294</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 727,094	\$ 739,815	\$ 371,718	\$ 356,407
403,078	267,849	-	-
2,516,921	2,389,704	-	-
3,647,093	3,397,368	371,718	356,407
12,159	13,115	784,860	723,975
7,251	12,100	463,273	414,128
109,600	108,857	2,990,072	2,447,583
260,242	248,943	2,516,728	2,236,807
170,910	216,081	204,952	204,600
231,865	154,202	927,255	645,463
15,982	5,725	30,663	12,934
60,604	57,067	47,918	36,853
3,698	863	38,583	8,230
4,325	4,452	77,463	52,606
292,478	295,464	660,084	644,280
423,734	394,402	814,296	527,177
-	-	130,860	117,312
6,938	2,117	156,062	71,259
-	-	3,841,674	3,363,632
5,879	3,243	852,328	811,112
16,111	24,465	800,415	678,143
1,621,776	1,541,096	15,337,486	12,996,094
\$ 5,268,869	\$ 4,938,464	\$ 15,709,204	\$ 13,352,501

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 49,739	\$ 98,177
Dietary	49,159	46,059
Clinic rent	41,077	28,247
Pharmacy rent	14,214	14,214
Medical record transcripts	1,822	1,615
Ambulance	469	5,184
Physical therapy contracts	105	12,290
Other	<u>22,439</u>	<u>38,456</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 179,024</u>	 <u>\$ 244,242</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 121,856	\$ 113,904
Supplies and other expenses	<u>5,736</u>	<u>4,663</u>
	<u>127,592</u>	<u>118,567</u>
ADULTS AND PEDIATRICS		
Salaries and wages	947,243	908,197
Supplies and other expenses	<u>93,267</u>	<u>78,392</u>
	<u>1,040,510</u>	<u>986,589</u>
NURSING FACILITY		
Salaries and wages	969,229	957,157
Supplies and other expenses	<u>127,496</u>	<u>75,802</u>
	<u>1,096,725</u>	<u>1,032,959</u>
OPERATING ROOM		
Salaries and wages	124,169	95,684
Supplies and other expenses	<u>79,074</u>	<u>86,827</u>
	<u>203,243</u>	<u>182,511</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>166,936</u>	<u>160,571</u>
RADIOLOGY		
Salaries and wages	217,978	207,196
Supplies and other expenses	<u>690,523</u>	<u>615,044</u>
	<u>908,501</u>	<u>822,240</u>
LABORATORY		
Salaries and wages	272,556	236,467
Supplies and other expenses	<u>380,748</u>	<u>331,524</u>
	<u>653,304</u>	<u>567,991</u>
RESPIRATORY THERAPY		
Salaries and wages	9,027	11,792
Supplies and other expenses	<u>29,884</u>	<u>26,339</u>
	<u>38,911</u>	<u>38,131</u>
PHYSICAL THERAPY		
Salaries and wages	77,815	135,914
Supplies and other expenses	<u>357,091</u>	<u>138,281</u>
	<u>434,906</u>	<u>274,195</u>
SPEECH THERAPY		
Supplies and other expenses	<u>18,604</u>	<u>12,261</u>

(continued)

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 36,126</u>	<u>\$ 38,678</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>10,284</u>	<u>6,533</u>
ELECTROCARDIOLOGY		
Salaries and wages	4,701	7,742
Supplies and other expenses	<u>5,217</u>	<u>5,125</u>
	<u>9,918</u>	<u>12,867</u>
PHARMACY		
Supplies and other expenses	<u>414,783</u>	<u>295,286</u>
CENTRAL SUPPLY		
Supplies and other expenses	<u>235,171</u>	<u>232,870</u>
CENTRAL STERILE		
Salaries and wages	14,916	21,952
Supplies and other expenses	<u>5,223</u>	<u>5,545</u>
	<u>20,139</u>	<u>27,497</u>
CARDIAC REHABILITATION		
Salaries and wages	35,583	39,208
Supplies and other expenses	<u>8,924</u>	<u>11,047</u>
	<u>44,507</u>	<u>50,255</u>
INFUSION THERAPY		
Salaries and wages	11,309	8,065
Supplies and other expenses	<u>2,399</u>	<u>-</u>
	<u>13,708</u>	<u>8,065</u>
CLINICS		
Salaries and wages	1,417,129	1,469,202
Supplies and other expenses	<u>1,292,133</u>	<u>977,046</u>
	<u>2,709,262</u>	<u>2,446,248</u>
EMERGENCY SERVICES		
Salaries and wages	90,306	89,876
Supplies and other expenses	<u>276,867</u>	<u>230,716</u>
	<u>367,173</u>	<u>320,592</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
AMBULANCE		
Salaries and wages	\$ 135,195	\$ 126,520
Supplies and other expenses	<u>66,965</u>	<u>92,459</u>
	<u>202,160</u>	<u>218,979</u>
SOCIAL SERVICES		
Salaries and wages	48,839	49,342
Supplies and other expenses	<u>245</u>	<u>415</u>
	<u>49,084</u>	<u>49,757</u>
MEDICAL RECORDS		
Salaries and wages	134,207	137,360
Supplies and other expenses	<u>34,936</u>	<u>38,515</u>
	<u>169,143</u>	<u>175,875</u>
DIETARY		
Salaries and wages	273,034	253,255
Supplies and other expenses	<u>202,858</u>	<u>183,607</u>
	<u>475,892</u>	<u>436,862</u>
REPAIRS AND MAINTENANCE		
Supplies and other expenses	<u>118,383</u>	<u>98,944</u>
OPERATION OF PLANT		
Salaries and wages	147,729	144,081
Supplies and other expenses	<u>256,177</u>	<u>264,481</u>
	<u>403,906</u>	<u>408,562</u>
HOUSEKEEPING		
Salaries and wages	141,365	129,619
Supplies and other expenses	<u>21,321</u>	<u>22,645</u>
	<u>162,686</u>	<u>152,264</u>
LAUNDRY AND LINEN		
Salaries and wages	20,441	18,023
Supplies and other expenses	<u>113,286</u>	<u>106,130</u>
	<u>133,727</u>	<u>124,153</u>
MARKETING		
Salaries and wages	21,502	27,732
Supplies and other expenses	<u>28,500</u>	<u>22,833</u>
	<u>50,002</u>	<u>50,565</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
PURCHASING		
Salaries and wages	\$ 48,051	\$ 45,234
Supplies and other expenses	<u>1,101</u>	<u>3,671</u>
	<u>49,152</u>	<u>48,905</u>
PATIENT EDUCATION		
Salaries and wages	14,380	17,048
Supplies and other expenses	<u>439</u>	<u>490</u>
	<u>14,819</u>	<u>17,538</u>
SPECIALTY CLINIC		
Salaries and wages	<u>5,710</u>	<u>5,045</u>
COMMUNITY EDUCATION		
Salaries and wages	2,382	13,098
Supplies and other expenses	<u>-</u>	<u>272</u>
	<u>2,382</u>	<u>13,370</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	399,662	392,781
Supplies and other expenses	<u>1,129,226</u>	<u>824,290</u>
	<u>1,528,888</u>	<u>1,217,071</u>
UNASSIGNED EXPENSES		
Depreciation	975,547	793,862
Interest	82,800	4,673
Employee benefits	<u>1,343,564</u>	<u>1,330,340</u>
	<u>2,401,911</u>	<u>2,128,875</u>
TOTAL OPERATING EXPENSES	<u>\$ 14,318,148</u>	<u>\$ 12,781,671</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2009 AND 2008**

ANALYSIS OF AGING	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,473,657	53.12%	\$ 1,380,194	47.67%
31 to 60 days	384,734	13.87%	502,131	17.34%
61 to 90 days	235,851	8.50%	224,977	7.77%
91 days and over	680,128	24.51%	788,035	27.22%
	2,774,370	100.00%	2,895,337	100.00%
Less: Allowance for doubtful accounts	220,000		292,332	
Allowance for contractual adjustments	705,034		683,630	
Net	\$ 1,849,336		\$ 1,919,375	
Net patient and resident service revenue (net of provision for bad debts) per calendar day	\$ 39,428		\$ 35,308	
Days of net revenue in net accounts receivable at year end	47		54	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2009	2008
Beginning Balance	\$ 292,332	\$ 230,000
Add:		
Provision for bad debts	695,584	402,598
Recoveries previously written off	190,057	176,923
	885,641	579,521
Less:		
Accounts written off	(957,973)	(517,189)
Ending Balance	\$ 220,000	\$ 292,332

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Pharmacy	\$ 79,409	\$ 71,574
Laboratory	32,872	40,816
Medical/surgical	<u>16,502</u>	<u>13,730</u>
 Total supplies	 <u>\$ 128,783</u>	 <u>\$ 126,120</u>
 PREPAID EXPENSE		
Insurance	\$ 53,997	\$ 64,127
Dues and other	55,539	52,007
Rent	<u>4,200</u>	<u>4,200</u>
 Total prepaid expense	 <u>\$ 113,736</u>	 <u>\$ 120,334</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	819	889
Swing-bed	1,234	837
Nursing facility	17,925	18,064
ADMISSIONS		
Acute	231	264
Swing-bed	111	92
Nursing facility	32	27
DISCHARGES		
Acute	233	263
Swing-bed	111	90
Nursing facility	38	25
AVERAGE LENGTH OF STAY		
Acute	3.52	3.38
Swing-bed	11.12	9.30
BEDS		
Acute	25	25
Nursing facility	52	52
OCCUPANCY PERCENTAGE		
Acute	9.0%	9.7%
Nursing facility	94.4%	95.2%
OUTPATIENT VISITS	14,742	13,903
ER VISITS	2,506	2,480
CLINIC VISITS		
Hampton	26,483	24,060
Dows	691	869
Latimer	653	981
Dumont	875	1,166
Totals	<u>28,702</u>	<u>27,076</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 and its discretely presented component unit, Franklin General Hospital Foundation, as of June 30, 2009 and 2008, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended, and have issued our report thereon dated October 14, 2009. 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 opinion 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 that 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.

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*. However, we noted a certain immaterial instance of non-compliance or other matters that is described in the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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 14, 2009.

This report, a public record by law, is intended solely for the information and use of the Finance Committee, Board of Trustees, management, officials, employees, and constituents of the 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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
October 14, 2009

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A 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.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

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.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

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

I-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – 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 statements of cash flows, as required by GAAP. 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.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital 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.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. 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.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 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-09 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-09 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-09 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-09 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-09 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.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

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

II-I-09 Publication of Sale of Real and Personal Property – Chapter 347.30 of the Code of Iowa states “A county or city hospital shall serve notice and hold a public hearing before selling or leasing any real (or personal) property. The notice shall definitely describe the property, indicate the date and location of the hearing, and shall be published by at least one insertion each week for two consecutive weeks in a newspaper having general circulation in the county where the property is located. The hearing shall not take place prior to two weeks after the second publication.” The Hospital sold personal property during the year without proper notice of publication prior to the sale.

Recommendation – In the future it is recommended that the Hospital publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of personal property.

Response – Going forward the Hospital will publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of personal property that has use to the general public. Therefore, if the item is equipment that is strictly for medical use, the Hospital will continue to find an appropriate “purchaser” of this equipment at a fair price.

Conclusion – Response accepted



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, 2009, and have issued our report thereon dated October 14, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 9, 2009. Professional standards also require that we communicate to you the following information related to our audit.

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, 2009. We noted no transactions entered into by the Hospital during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient and Resident Receivables – Management's estimate of the collectibility of patient and resident receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. 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 that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient and resident receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

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.

We discussed all adjustments to the financial statements with the Hospital’s staff during the audit. The following adjustments were made during the fiscal year 2009 audit:

Revenue in excess of expenses, prior to audit adjustments	\$ 1,493,454
To adjust estimated third-party payor settlements	(42,094)
To adjust allowance for doubtful accounts	(50,723)
Other adjustments	<u>(14,847)</u>
Revenues in excess of expenses as reported	<u>\$ 1,385,790</u>

There were no significant passed adjustments.

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 14, 2009.

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. 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 Finance Committee, Board of Trustees, management, officials, employees, and constituents of Franklin General Hospital and other parties to whom the Hospital may report 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 14, 2009

xc: Mr. Mark Klosterman, CEO

FRANKLIN GENERAL HOSPITAL

YEAR ENDED JUNE 30, 2009

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 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.