



Financial Statements
June 30, 2010 and 2009

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

Administration

Kim Price	Chief Executive Officer
Shelly Craighton	Finance Manager
Chris Eckhoff	Director of Nursing/Assistant Administrator



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, 2010 and 2009, 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, 2010 and 2009, 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 20, 2010, 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.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 28 and 29 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 20, 2010

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, 2010. 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 \$16,481,799. This is an increase of \$1,802,612 or 12.3% from last fiscal year.
- The Hospital's capital assets (net of accumulated depreciation) increased \$5,202,314 or 47.1% to \$16,242,958.
- The Hospital's outstanding debt totaled \$4,811,270, which is an increase of \$2,253,137 from last fiscal year.
- The Hospital's total operating revenues increased \$198,195 or 1.4% to \$14,768,612, while total operating expenses decreased \$95,349 or 0.7% to \$14,222,799.
- The Hospital recorded operating income (before affiliation agreement) of \$545,813, which is an increase of \$293,544 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, 2010, the balance sheet reports total assets of \$24,408,352, total liabilities of \$7,926,553, and total net assets of \$16,481,799.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. At June 30, 2010, these statements indicate total operating revenues of \$14,768,612 and total operating expenses of \$14,222,799. Operating income (before affiliation agreement) is \$545,813.

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, 2010, the Hospital's capital assets (net of accumulated depreciation) totaled \$16,242,958. This investment in capital assets includes land, land improvements, buildings, equipment, and construction in progress.

Insuring Future Financial Success

Franklin General Hospital (FGH) has had an exciting past year. New construction and remodeling is in full swing throughout the facility. The new Physical Therapy and Cardiac Rehab area recently opened and is receiving rave reviews from our patients and staff. The construction has created some challenges for staff and patients as we are currently working in 11 different areas of the facility. FGH continues to pay for the construction through a combination of cash flow and the construction note with the local banks.

With the recent hiring of two new mid-level providers, FGH is currently at full staff of physicians and mid-levels and transitioning into their regular rotation in our outlying clinics. The goal at FGH continues to be to exceed our customers' expectations with regard to satisfaction, safety, and quality of care. FGH will continue to narrow its focus 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 Kim Price, 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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 2,393,655	\$ 3,158,973
Receivables		
Patient and resident, net of estimated uncollectibles		
of \$1,159,000 in 2010 and \$925,000 in 2009	1,707,179	1,849,336
Succeeding year property tax	1,081,252	1,088,555
Other	100,679	128,210
Supplies	181,501	128,783
Prepaid expense	122,710	113,736
Total current assets	<u>5,586,976</u>	<u>6,467,593</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Restricted under resident trust agreement	1,732	5,968
Internally designated for capital acquisition	2,535,134	2,537,822
Total assets limited as to use or restricted	<u>2,536,866</u>	<u>2,543,790</u>
CAPITAL ASSETS, net - Note 6	<u>16,242,958</u>	<u>11,040,644</u>
OTHER ASSETS - Note 7		
Investment in joint venture	16,415	40,563
Physician advances	25,137	50,275
Total other assets	<u>41,552</u>	<u>90,838</u>
Total assets	<u>\$ 24,408,352</u>	<u>\$ 20,142,865</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 182,046	\$ 274,118
Construction	844,896	318,409
Estimated third-party payor settlements	71,000	235,000
Affiliated organization - Note 11	127,552	145,570
Accrued expenses		
Salaries and wages	175,970	153,435
Vacation	498,128	523,722
Payroll taxes and other	100,903	143,268
Interest	14,304	-
Deferred revenue for succeeding year property tax receivable	<u>1,081,252</u>	<u>1,088,555</u>
Total current liabilities	<u>3,096,051</u>	<u>2,882,077</u>
OTHER LIABILITIES		
Lease deposit	17,500	17,500
Residents' cash fund	<u>1,732</u>	<u>5,968</u>
Total other liabilities	<u>19,232</u>	<u>23,468</u>
LONG-TERM DEBT, less current maturities - Note 8	<u>4,811,270</u>	<u>2,558,133</u>
Total liabilities	<u>7,926,553</u>	<u>5,463,678</u>
NET ASSETS		
Invested in capital assets, net of related debt	11,431,688	8,482,511
Unrestricted	<u>5,050,111</u>	<u>6,196,676</u>
Total net assets	<u>16,481,799</u>	<u>14,679,187</u>
Total liabilities and net assets	<u>\$ 24,408,352</u>	<u>\$ 20,142,865</u>

FRANKLIN GENERAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 69,425	\$ 56,114
Certificates of deposit	200,000	230,737
Investment in mutual funds	272,409	217,292
Promises to give, net - Note 5	59,597	-
Interest receivable	635	507
Total current assets	<u>602,066</u>	<u>504,650</u>
ASSETS LIMITED AS TO USE OR RESTRICTED		
Beneficial interest in net assets of Community Foundation	<u>175,235</u>	<u>167,816</u>
OTHER ASSETS		
Promises to give, net - Note 5	<u>29,129</u>	-
Total assets	<u>\$ 806,430</u>	<u>\$ 672,466</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 28,918	\$ 37
Annuity obligation	<u>24,209</u>	<u>25,523</u>
Total current liabilities	<u>53,127</u>	<u>25,560</u>
NET ASSETS		
Unrestricted	382,993	391,089
Temporarily restricted	195,075	88,001
Permanently restricted	<u>175,235</u>	<u>167,816</u>
Total net assets	<u>753,303</u>	<u>646,906</u>
Total liabilities and net assets	<u>\$ 806,430</u>	<u>\$ 672,466</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$867,517 in 2010 and \$695,584 in 2009) - Notes 2 and 3	\$ 14,556,584	\$ 14,391,393
Other operating revenues	<u>212,028</u>	<u>179,024</u>
TOTAL OPERATING REVENUES	<u>14,768,612</u>	<u>14,570,417</u>
OPERATING EXPENSES		
Salaries and wages	5,670,811	5,706,314
Employee benefits	1,354,343	1,343,564
Supplies and other expenses	6,060,008	6,209,923
Depreciation	1,026,637	975,547
Interest expense	<u>111,000</u>	<u>82,800</u>
TOTAL OPERATING EXPENSES	<u>14,222,799</u>	<u>14,318,148</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	545,813	252,269
AFFILIATION AGREEMENT EXPENSE	<u>(22,906)</u>	<u>-</u>
OPERATING INCOME	<u>522,907</u>	<u>252,269</u>
NON-OPERATING REVENUES (EXPENSES)		
Income on investment in joint venture	853	29,718
Tax revenue	1,086,738	932,797
Non-capital grants and contributions	36,065	18,443
Investment income	73,143	99,919
Gain (loss) on disposal of capital assets	12,180	(34,961)
Gain from Franklin Prairie Apartments	86,899	83,277
Other	<u>4,264</u>	<u>4,328</u>
NET NON-OPERATING REVENUES	<u>1,300,142</u>	<u>1,133,521</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFER		
	1,823,049	1,385,790
Capital grants and contributions	3,085	92,083
Transfer to Franklin General Hospital Foundation	<u>(23,522)</u>	<u>(25,211)</u>
INCREASE IN NET ASSETS	1,802,612	1,452,662
NET ASSETS, BEGINNING OF YEAR	<u>14,679,187</u>	<u>13,226,525</u>
NET ASSETS, END OF YEAR	<u>\$ 16,481,799</u>	<u>\$ 14,679,187</u>

See notes to financial statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions	\$ 32,568	\$ 130,596	\$ -	\$ 163,164
Investment income (loss)	38,097	-	7,419	45,516
Total revenues	<u>70,665</u>	<u>130,596</u>	<u>7,419</u>	<u>208,680</u>
EXPENSES				
Gifts to Franklin General Hospital	22,199	23,522	-	45,721
Professional fees	4,320	-	-	4,320
Foundation coordinator	18,925	-	-	18,925
Supplies and other	46,066	-	-	46,066
Total expenses	<u>91,510</u>	<u>23,522</u>	<u>-</u>	<u>115,032</u>
Revenues in excess of (less than) expenses before other changes	(20,845)	107,074	7,419	93,648
OTHER CHANGES				
Change in value of split-interest agreement	(10,773)	-	-	(10,773)
Net assets released from restrictions	-	-	-	-
Transfer from Franklin General Hospital	23,522	-	-	23,522
CHANGE IN NET ASSETS	<u>(8,096)</u>	<u>107,074</u>	<u>7,419</u>	<u>106,397</u>
NET ASSETS, BEGINNING OF YEAR	<u>391,089</u>	<u>88,001</u>	<u>167,816</u>	<u>646,906</u>
NET ASSETS, END OF YEAR	<u>\$ 382,993</u>	<u>\$ 195,075</u>	<u>\$ 175,235</u>	<u>\$ 753,303</u>

See notes to financial statements.

2009

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 88,131	\$ 86,296	\$ -	\$ 174,427
<u>(49,250)</u>	<u>-</u>	<u>(63,922)</u>	<u>(113,172)</u>
<u>38,881</u>	<u>86,296</u>	<u>(63,922)</u>	<u>61,255</u>
32,936	33,002	-	65,938
2,918	-	-	2,918
22,034	-	-	22,034
<u>43,602</u>	<u>-</u>	<u>-</u>	<u>43,602</u>
<u>101,490</u>	<u>33,002</u>	<u>-</u>	<u>134,492</u>
(62,609)	53,294	(63,922)	(73,237)
(11,081)	-	-	(11,081)
3,945	(3,945)	-	-
<u>25,211</u>	<u>-</u>	<u>-</u>	<u>25,211</u>
(44,534)	49,349	(63,922)	(59,107)
<u>435,623</u>	<u>38,652</u>	<u>231,738</u>	<u>706,013</u>
<u>\$ 391,089</u>	<u>\$ 88,001</u>	<u>\$ 167,816</u>	<u>\$ 646,906</u>

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 14,534,741	\$ 14,981,432
Payments of salaries and wages	(5,673,870)	(5,689,720)
Payments of supplies and other expenses	(7,124,917)	(7,600,935)
Other receipts and payments, net	<u>237,288</u>	<u>154,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,973,242</u>	<u>1,844,777</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-capital grants and contributions	36,065	18,443
Tax revenue	1,089,009	931,151
Transfer to Franklin General Hospital Foundation	(23,522)	(25,211)
Net income from Franklin Prairie Apartments, excluding interest expense and depreciation	213,644	210,022
Other non-operating revenue	<u>4,264</u>	<u>4,328</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,319,460</u>	<u>1,138,733</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(6,355,695)	(1,881,805)
Proceeds from sale of capital assets	12,180	2,300
Capital grants and contributions	3,085	92,083
Proceeds from issuance of long-term debt	2,253,137	2,558,133
Payments on long-term debt	-	(2,400,000)
Interest payments on long-term debt	<u>(96,696)</u>	<u>(83,720)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,183,989)</u>	<u>(1,713,009)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in physician advances	25,138	12,000
(Increase) decrease in assets limited as to use or restricted	2,688	(2,490,179)
Distribution from joint venture	25,000	20,074
Interest earned on investments	<u>73,143</u>	<u>99,919</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>125,969</u>	<u>(2,358,186)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(765,318)</u>	<u>(1,087,685)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,158,973</u>	<u>4,246,658</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,393,655</u></u>	<u><u>\$ 3,158,973</u></u>

(continued)

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 522,907	\$ 252,269
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,026,637	975,547
Interest expense considered capital and related financing activity	111,000	82,800
Provision for bad debts	867,517	695,584
Changes to assets and liabilities		
Receivables	(700,100)	(650,569)
Estimated third-party payor settlements	(164,000)	520,000
Supplies	(52,718)	(2,663)
Prepaid expense	(8,974)	6,598
Accounts payable	416,397	(40,255)
Accrued expenses	<u>(45,424)</u>	<u>5,466</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,973,242</u>	<u>\$ 1,844,777</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest (net of amount capitalized) in 2010 and 2009 was \$152,964 and \$83,720, respectively.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 106,397	\$ (59,107)
Changes in assets and liabilities		
Promises to give, net	(88,726)	-
Interest receivable	(128)	(97)
Accounts payable	28,881	(2,961)
Annuity obligation	(1,314)	6,773
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>45,110</u>	<u>(55,392)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in assets limited as to use or restricted	(7,419)	63,923
Decrease (increase) in investment in mutual funds	(55,117)	69,864
Maturities of certificates of deposit	462,025	328,059
Purchase of certificates of deposit	(431,288)	(431,288)
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>(31,799)</u>	<u>30,558</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,311	(24,834)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>56,114</u>	<u>80,948</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 69,425</u>	<u>\$ 56,114</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Franklin General Hospital (Hospital) is the county hospital of Franklin County, Iowa. The Hospital provides services 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 organized under Chapter 347 of the Code of Iowa. It is also organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is exempt from income taxes as a political subdivision. However, the Hospital would be subject to federal income tax on any unrelated business taxable income.

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

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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

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

Measurement Focus and Basis of Accounting

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

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
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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 taxes which represent unpaid taxes for the current and prior years are recorded in other receivables. The succeeding year property tax receivable represents taxes certified by the Board of Trustees 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 Trustees 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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. 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
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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, 2010 and 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 \$27,482 and \$34,730 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Asset Retirement Obligations

Management has considered FASB Accounting Standards Codification Topic ASC 410-20 (previously Financial Interpretation No. 47, *Accounting for Asset Retirement Obligations*), specifically as it relates to its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the next few years, management will have systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Hospital may settle the obligation is unknown. Management also believes the estimated liability related to any potential asset retirement activities is immaterial at June 30, 2010 and 2009.

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.

Accounting for Uncertainty in Taxes

The Hospital has adopted the provisions of FASB Accounting Standards Codification Topic 740-10 (previously Financial Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Hospital will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events

The Hospital has evaluated subsequent events through October 20, 2010, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on the increase in net assets.

Other Significant Accounting Policies

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

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 \$51,839 and \$72,599 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$33,000 and \$49,000, 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.

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, 2009.

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, 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 7%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2010, and 49% and 12%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2009. The net patient and resident service revenue for the years ended June 30, 2010 and 2009, increased approximately \$156,000 and \$192,000, respectively, 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient and resident service revenue	<u>\$ 21,638,976</u>	<u>\$ 20,905,474</u>
Contractual adjustments		
Medicare	(4,343,126)	(4,361,336)
Medicaid	(744,478)	(566,238)
Blue Cross	(845,342)	(587,334)
Other	<u>(281,929)</u>	<u>(303,589)</u>
Total contractual adjustments	<u>(6,214,875)</u>	<u>(5,818,497)</u>
Net patient and resident service revenue	<u>15,424,101</u>	15,086,977
Provision for bad debts	<u>(867,517)</u>	<u>(695,584)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 14,556,584</u>	<u>\$ 14,391,393</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2010 and 2009, 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, 2010 and 2009, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 2,424,614	\$ 3,189,416
Certificates of deposit	<u>2,505,907</u>	<u>2,513,347</u>
Total deposits	<u>\$ 4,930,521</u>	<u>\$ 5,702,763</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 2,393,655	\$ 3,158,973
Assets limited as to use or restricted	<u>2,536,866</u>	<u>2,543,790</u>
	<u>\$ 4,930,521</u>	<u>\$ 5,702,763</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, 2010 AND 2009

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 4.625%. Amortization of the discounts is included in contribution revenue. Promises to give are due as follows:

	2010
Less than one year	\$ 59,597
One to five years	<u>35,365</u>
	94,962
Less unamortized discount	(4,748)
Less allowance for uncollectible promises to give	<u>(1,488)</u>
Promises to give, net	<u><u>\$ 88,726</u></u>

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 213,670	\$ -	\$ -	\$ -	\$ 213,670
Land improvements	348,812	-	-	-	348,812
Building	8,670,164	-	-	-	8,670,164
Fixed equipment	5,642,724	91,345	(87,150)	-	5,646,919
Major movable equipment	3,472,139	143,059	(96,841)	35,523	3,553,880
Construction in progress	1,515,305	6,121,291	-	(35,523)	7,601,073
Total	<u>19,862,814</u>	<u>\$ 6,355,695</u>	<u>\$ (183,991)</u>	<u>\$ -</u>	<u>26,034,518</u>
Accumulated depreciation					
Land improvements	198,833	\$ 24,135	\$ -	\$ -	222,968
Building	4,188,017	399,110	-	-	4,587,127
Fixed equipment	2,313,147	280,375	(87,150)	-	2,506,372
Major movable equipment	2,122,173	449,761	(96,841)	-	2,475,093
Total	<u>8,822,170</u>	<u>\$ 1,153,381</u>	<u>\$ (183,991)</u>	<u>\$ -</u>	<u>9,791,560</u>
Capital assets, net	<u>\$ 11,040,644</u>				<u>\$ 16,242,958</u>

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30, 2008				June 30, 2009
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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>

The majority of construction in progress at June 30, 2010, 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 project will be completed in various phases with final completion scheduled for 2012.

NOTE 7 – 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 \$853 and \$29,718 in 2010 and 2009, respectively. During the years ended June 30, 2010 and 2009, the Hospital received equity distributions of \$25,000 and \$20,074, 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, 2010 AND 2009

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2010 and 2009, is as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts Due</u> <u>Within One Year</u>
Promissory note, bank	\$ 2,558,133	\$ 1,153,137	\$ -	\$ 3,711,270	\$ -
Promissory note, Corn Belt Power	-	360,000	-	360,000	-
Promissory note, Franklin Rural Electric	-	740,000	-	740,000	-
Total long-term debt	<u>\$ 2,558,133</u>	<u>\$ 2,253,137</u>	<u>\$ -</u>	<u>4,811,270</u>	<u>\$ -</u>
Less current maturities				<u>-</u>	
Long-term debt, less current maturities				<u>\$ 4,811,270</u>	

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Amounts Due</u> <u>Within One Year</u>
Promissory note, bank	\$ 2,400,000	\$ -	\$ (2,400,000)	\$ -	\$ -
Promissory note, bank	-	2,558,133	-	2,558,133	-
Total long-term debt	<u>\$ 2,400,000</u>	<u>\$ 2,558,133</u>	<u>\$ (2,400,000)</u>	2,558,133	<u>\$ -</u>
Less current maturities				<u>-</u>	
Long-term debt, less current maturities				<u>\$ 2,558,133</u>	

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>
2011	\$ -	\$ 171,646	\$ 171,646
2012	99,375	171,646	271,021
2013	271,638	155,259	426,897
2014	290,989	162,216	453,205
2015	298,240	154,965	453,205
2016-2020	1,513,169	653,480	2,166,649
2021-2025	1,165,198	413,326	1,578,524
2026-2030	<u>1,172,661</u>	<u>116,467</u>	<u>1,289,128</u>
	<u>\$ 4,811,270</u>	<u>\$ 1,999,005</u>	<u>\$ 6,810,275</u>

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

A summary of interest cost and investment income on borrowed funds during the year ended June 30, 2010, is as follows:

	<u>2010</u>
Interest cost:	
Capitalized as part of construction project	\$ 27,660
Recognized as interest expense	<u>111,000</u>
Total	<u>\$ 138,660</u>
Interest income:	
Capitalized as part of construction project	<u>\$ -</u>

Promissory Note, Corn Belt Power

The Hospital issued a non-interest bearing promissory note in the amount of \$360,000 to the Corn Belt Power Cooperative on October 29, 2009 to help fund the master facility plan. Principal payments of \$3,750 commence November 1, 2011 and continue monthly thereafter on the first day of each month through October 1, 2019. \$300,000 of these funds were borrowed through the federal program Rural Economic Development Loans and Grants and is included on the Schedule of Expenditures of Federal Awards (see page 45).

Promissory Note, Franklin Rural Electric

The Hospital issued a non-interest bearing promissory note in the amount of \$740,000 to the Franklin Rural Electric Cooperative on October 29, 2009 to help fund the master facility plan. Principal payments of \$7,708 commence October 31, 2011 and continue monthly thereafter on the last day of each month through September 30, 2019. The promissory note was borrowed through the federal program Rural Economic Development Loans and Grants and is included on the Schedule of Expenditures of Federal Awards (see page 45).

Promissory Note, UBT

The Hospital issued a 4.625% promissory note payable in the amount of \$2,558,133 to United Bank and Trust (UBT) Company on June 30, 2009, to pay down existing debt and help fund the master facility plan. 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%.

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.

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FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 – 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, 2010 and 2009, was \$247,639 and \$234,501, respectively.

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

<u>Year Ending June 30,</u>	<u>Total</u>
2011	\$ 221,895
2012	221,895
2013	<u>163,913</u>
	<u>\$ 607,703</u>

NOTE 10 – 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 4.30% of their annual covered salary, and the Hospital is required to contribute 6.65% of annual covered payroll for the years ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Hospital was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$434,494, \$378,940, and \$377,601, respectively, equal to the required contributions for each year.

NOTE 11 – 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 \$1,558,744 and \$1,704,237 for the years ended June 30, 2010 and 2009, respectively.

The Hospital's Master Affiliation Agreement with MMC-NI was amended effective July 1, 2008. Operating gains and losses that are less than \$500,000 are allocated entirely to the Hospital. Operating gains and losses in excess of \$500,000 are shared equally between the Hospital and MMC-NI. Total operating gains to be allocated to MMC-NI amounted to \$45,813 for the year ended June 30, 2010.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 \$417,856 and \$416,950 for the years ended June 30, 2010 and 2009, respectively.

Due to Affiliated Organization

As of June 30, 2010 and 2009, the Hospital's records reflect a due to MMC-NI of \$127,552 and \$145,570, respectively, for the various services provided.

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>
2011	\$ 222,996
2012	<u>55,749</u>
	<u>\$ 278,745</u>

NOTE 12 – 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.

FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 13 – 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 14 – 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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	31%	33%
Medicaid	7%	8%
Commercial insurance	23%	22%
Other third-party payors, patients, and residents	39%	37%
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

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, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 1,086,738	\$ 2,271	\$ 1,089,009	\$ 1,088,555	\$ 454
Estimated other revenues/receipts	<u>14,985,101</u>	<u>2,432,584</u>	<u>17,417,685</u>	<u>15,799,834</u>	<u>1,617,851</u>
	16,071,839	2,434,855	18,506,694	16,888,389	1,618,305
Expenses/disbursements	<u>14,269,227</u>	<u>5,009,709</u>	<u>19,278,936</u>	<u>25,950,329</u>	<u>6,671,393</u>
Net	1,802,612	(2,574,854)	(772,242)	(9,061,940)	<u>\$ 8,289,698</u>
Balance, beginning of year	<u>14,679,187</u>	<u>(8,976,424)</u>	<u>5,702,763</u>	<u>18,583,853</u>	
Balance, end of year	<u>\$ 16,481,799</u>	<u>\$ (11,551,278)</u>	<u>\$ 4,930,521</u>	<u>\$ 9,521,913</u>	

FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2010

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, 2010.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2010 and 2009

Franklin General Hospital



**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 40 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.

Eide Bailly LLP

Dubuque, Iowa
October 20, 2010

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,136,135	\$ 1,098,812
Swing-bed	433,714	403,078
Nursing facility	<u>2,599,191</u>	<u>2,516,921</u>
Subtotal	<u>4,169,040</u>	<u>4,018,811</u>
OTHER PROFESSIONAL SERVICES		
Operating room	779,788	797,019
Anesthesiology	460,006	470,524
Radiology	2,949,872	3,099,672
Laboratory	2,818,445	2,776,970
Respiratory therapy	706,240	375,862
Physical therapy	1,403,146	1,159,120
Speech therapy	47,777	46,645
Occupational therapy	243,288	108,522
Enterostomal therapy	25,427	42,281
Electrocardiology	116,934	81,788
Medical and surgical supplies	1,017,970	952,562
Pharmacy	1,122,280	1,238,030
Cardiac rehabilitation	147,599	130,860
Infusion therapy	126,040	163,000
Clinics	3,885,501	3,841,674
Emergency services	899,357	858,207
Ambulance	<u>772,105</u>	<u>816,526</u>
Subtotal	<u>17,521,775</u>	<u>16,959,262</u>
Total	21,690,815	20,978,073
Charity care	<u>(51,839)</u>	<u>(72,599)</u>
Total patient and resident service revenue	<u>21,638,976</u>	<u>20,905,474</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(4,343,126)	(4,361,336)
Medicaid	(744,478)	(566,238)
Blue Cross	(845,342)	(587,334)
Other	<u>(281,929)</u>	<u>(303,589)</u>
Total contractual adjustments	<u>(6,214,875)</u>	<u>(5,818,497)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	15,424,101	15,086,977
PROVISION FOR BAD DEBTS	<u>(867,517)</u>	<u>(695,584)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 14,556,584</u>	<u>\$ 14,391,393</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 802,787	\$ 727,094	\$ 333,348	\$ 371,718
433,714	403,078	-	-
<u>2,599,191</u>	<u>2,516,921</u>	<u>-</u>	<u>-</u>
<u>3,835,692</u>	<u>3,647,093</u>	<u>333,348</u>	<u>371,718</u>
4,511	12,159	775,277	784,860
6,552	7,251	453,454	463,273
166,122	109,600	2,783,750	2,990,072
268,227	260,242	2,550,218	2,516,728
445,195	170,910	261,045	204,952
259,322	231,865	1,143,824	927,255
14,184	15,982	33,593	30,663
117,139	60,604	126,149	47,918
3,287	3,698	22,140	38,583
5,167	4,325	111,767	77,463
343,267	292,478	674,703	660,084
437,635	423,734	684,645	814,296
-	-	147,599	130,860
7,135	6,938	118,905	156,062
-	-	3,885,501	3,841,674
14,316	5,879	885,041	852,328
28,822	16,111	743,283	800,415
<u>2,120,881</u>	<u>1,621,776</u>	<u>15,400,894</u>	<u>15,337,486</u>
<u>\$ 5,956,573</u>	<u>\$ 5,268,869</u>	<u>\$ 15,734,242</u>	<u>\$ 15,709,204</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 60,429	\$ 49,739
Dietary	50,110	49,159
Clinic rent	46,346	41,077
Pharmacy rent	14,214	14,214
Medical record transcripts	2,454	1,822
Physical therapy contracts	-	105
Other	<u>38,475</u>	<u>22,908</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 212,028</u>	 <u>\$ 179,024</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 125,738	\$ 121,856
Supplies and other expenses	<u>2,185</u>	<u>5,736</u>
	<u>127,923</u>	<u>127,592</u>
ADULTS AND PEDIATRICS		
Salaries and wages	899,071	947,243
Supplies and other expenses	<u>58,515</u>	<u>93,267</u>
	<u>957,586</u>	<u>1,040,510</u>
NURSING FACILITY		
Salaries and wages	997,301	969,229
Supplies and other expenses	<u>102,612</u>	<u>127,496</u>
	<u>1,099,913</u>	<u>1,096,725</u>
OPERATING ROOM		
Salaries and wages	128,848	124,169
Supplies and other expenses	<u>90,186</u>	<u>79,074</u>
	<u>219,034</u>	<u>203,243</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>156,719</u>	<u>166,936</u>
RADIOLOGY		
Salaries and wages	202,499	217,978
Supplies and other expenses	<u>678,165</u>	<u>690,523</u>
	<u>880,664</u>	<u>908,501</u>
LABORATORY		
Salaries and wages	270,119	272,556
Supplies and other expenses	<u>329,087</u>	<u>380,748</u>
	<u>599,206</u>	<u>653,304</u>
RESPIRATORY THERAPY		
Salaries and wages	7,641	9,027
Supplies and other expenses	<u>34,777</u>	<u>29,884</u>
	<u>42,418</u>	<u>38,911</u>
PHYSICAL THERAPY		
Salaries and wages	77,563	77,815
Supplies and other expenses	<u>444,667</u>	<u>357,091</u>
	<u>522,230</u>	<u>434,906</u>
SPEECH THERAPY		
Supplies and other expenses	<u>18,889</u>	<u>18,604</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 65,865</u>	<u>\$ 36,126</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>9,794</u>	<u>10,284</u>
ELECTROCARDIOLOGY		
Salaries and wages	<u>6,650</u>	4,701
Supplies and other expenses	<u>5,873</u>	<u>5,217</u>
	<u>12,523</u>	<u>9,918</u>
PHARMACY		
Supplies and other expenses	<u>348,159</u>	<u>414,783</u>
CENTRAL SUPPLY		
Supplies and other expenses	<u>172,341</u>	<u>235,171</u>
CENTRAL STERILE		
Salaries and wages	<u>14,103</u>	14,916
Supplies and other expenses	<u>7,072</u>	<u>5,223</u>
	<u>21,175</u>	<u>20,139</u>
CARDIAC REHABILITATION		
Salaries and wages	<u>41,934</u>	35,583
Supplies and other expenses	<u>9,011</u>	<u>8,924</u>
	<u>50,945</u>	<u>44,507</u>
INFUSION THERAPY		
Salaries and wages	<u>6,740</u>	11,309
Supplies and other expenses	<u>457</u>	<u>2,399</u>
	<u>7,197</u>	<u>13,708</u>
CLINICS		
Salaries and wages	<u>1,425,889</u>	1,417,129
Supplies and other expenses	<u>1,174,428</u>	<u>1,292,133</u>
	<u>2,600,317</u>	<u>2,709,262</u>
EMERGENCY SERVICES		
Salaries and wages	<u>92,564</u>	90,306
Supplies and other expenses	<u>363,071</u>	<u>276,867</u>
	<u>455,635</u>	<u>367,173</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
AMBULANCE		
Salaries and wages	\$ 150,480	\$ 135,195
Supplies and other expenses	<u>58,092</u>	<u>66,965</u>
	<u>208,572</u>	<u>202,160</u>
SOCIAL SERVICES		
Salaries and wages	45,838	48,839
Supplies and other expenses	<u>391</u>	<u>245</u>
	<u>46,229</u>	<u>49,084</u>
MEDICAL RECORDS		
Salaries and wages	133,145	134,207
Supplies and other expenses	<u>34,823</u>	<u>34,936</u>
	<u>167,968</u>	<u>169,143</u>
DIETARY		
Salaries and wages	270,081	273,034
Supplies and other expenses	<u>213,383</u>	<u>202,858</u>
	<u>483,464</u>	<u>475,892</u>
REPAIRS AND MAINTENANCE		
Supplies and other expenses	<u>111,461</u>	<u>118,383</u>
OPERATION OF PLANT		
Salaries and wages	141,103	147,729
Supplies and other expenses	<u>224,424</u>	<u>256,177</u>
	<u>365,527</u>	<u>403,906</u>
HOUSEKEEPING		
Salaries and wages	130,066	141,365
Supplies and other expenses	<u>23,246</u>	<u>21,321</u>
	<u>153,312</u>	<u>162,686</u>
LAUNDRY AND LINEN		
Salaries and wages	19,775	20,441
Supplies and other expenses	<u>106,321</u>	<u>113,286</u>
	<u>126,096</u>	<u>133,727</u>
MARKETING		
Salaries and wages	19,055	21,502
Supplies and other expenses	<u>21,037</u>	<u>28,500</u>
	<u>40,092</u>	<u>50,002</u>

(continued)

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
PURCHASING		
Salaries and wages	\$ 49,149	\$ 48,051
Supplies and other expenses	<u>5,464</u>	<u>1,101</u>
	<u>54,613</u>	<u>49,152</u>
PATIENT EDUCATION		
Salaries and wages	16,251	14,380
Supplies and other expenses	<u>1,851</u>	<u>439</u>
	<u>18,102</u>	<u>14,819</u>
SPECIALTY CLINIC		
Salaries and wages	<u>3,106</u>	<u>5,710</u>
COMMUNITY EDUCATION		
Salaries and wages	45	2,382
Supplies and other expenses	<u>3</u>	<u>-</u>
	<u>48</u>	<u>2,382</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	396,056	399,662
Supplies and other expenses	<u>1,187,640</u>	<u>1,129,226</u>
	<u>1,583,696</u>	<u>1,528,888</u>
UNASSIGNED EXPENSES		
Depreciation	1,026,637	975,547
Interest	111,000	82,800
Employee benefits	<u>1,354,343</u>	<u>1,343,564</u>
	<u>2,491,980</u>	<u>2,401,911</u>
TOTAL OPERATING EXPENSES	<u>\$ 14,222,799</u>	<u>\$ 14,318,148</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL
ACCOUNTS, AND COLLECTION STATISTICS
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING Days Since Discharge	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,635,340	57.05%	\$ 1,473,657	53.12%
31 to 60 days	375,772	13.11%	384,734	13.87%
61 to 90 days	162,236	5.66%	235,851	8.50%
91 days and over	693,026	24.18%	680,128	24.51%
	2,866,374	100.00%	2,774,370	100.00%
Less: Allowance for doubtful accounts	420,074		220,000	
Allowance for contractual adjustments	739,121		705,034	
Net	\$ 1,707,179		\$ 1,849,336	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Beginning balance	\$ 220,000	\$ 292,332
Add:		
Provision for bad debts	867,517	695,584
Recoveries previously written off	151,194	190,057
	1,018,711	885,641
Less:		
Accounts written off	(818,637)	(957,973)
Ending balance	\$ 420,074	\$ 220,000

COLLECTION STATISTICS

Net accounts receivable - patients and residents	\$ 1,707,179	\$ 1,849,336
Number of days charges outstanding (1)	43	47
Uncollectible accounts (2)	\$ 957,010	\$ 802,289
Percentage of uncollectible accounts to total charges	4.4%	3.8%

(1) Based on average daily net patient and resident service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SUPPLIES		
Pharmacy	\$ 101,935	\$ 79,409
Laboratory	52,279	32,872
Medical/surgical	<u>27,287</u>	<u>16,502</u>
 Total supplies	 <u>\$ 181,501</u>	 <u>\$ 128,783</u>
 PREPAID EXPENSE		
Insurance	\$ 59,305	\$ 53,997
Dues and other	59,205	55,539
Rent	<u>4,200</u>	<u>4,200</u>
 Total prepaid expense	 <u>\$ 122,710</u>	 <u>\$ 113,736</u>

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF INSURANCE IN FORCE AT JUNE 30, 2010

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
Federal Ins Company				
3579-39-61 WUC	Commercial Property	\$ 16,934,518	\$ 34,190	7/1/2010
(09)7498-06-65	Auto	\$ 1,000,000	\$ 8,201	7/1/2010
6802-8577	D&O Liability	\$ 1,000,000	\$ 8,635	7/1/2010
3579-39-61 WUC	Add Builder's Risk		\$ 10,424	7/1/2010
3579-39-61 WUC	Commercial Pkg ATV (Fair)		\$ 5	7/1/2010
IMT Insurance				
FD1219	Fidelity Bond	\$ 100,000	\$ 615	7/1/2010
Employers Mutual				
T231260	Resident Fund Bond	\$ 5,000	\$ 100	7/1/2010
MHA Insurance				
01-IA10018	Institutional Prof Liab		\$ 29,254	6/30/2010
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	Physicians Liability		\$ 15,094	6/30/2010
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	Comm Gen Liability		\$ 2,303	6/30/2010
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	Emp Benefits Liability		\$ 1,500	6/30/2010
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	HealthCare Umb Liab		\$ 6,276	6/30/2010
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 1,000,000		
United Heartland Ins.				
4000067272	Workers Comp & Liab		\$ 78,118	4/10/2011
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 1,000,000		

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	848	819
Swing-bed	1,013	1,234
Nursing facility	18,087	17,925
ADMISSIONS		
Acute	220	231
Swing-bed	88	111
Nursing facility	40	32
DISCHARGES		
Acute	218	233
Swing-bed	90	111
Nursing facility	35	38
AVERAGE LENGTH OF STAY		
Acute	3.89	3.52
Swing-bed	11.26	11.12
BEDS		
Acute	25	25
Nursing facility	52	52
OCCUPANCY PERCENTAGE		
Acute and swing-bed	20.4%	22.5%
Nursing facility	95.3%	94.4%
OUTPATIENT VISITS	14,030	14,742
ER VISITS	2,491	2,506
CLINIC VISITS		
Hampton	25,427	26,483
Dows	679	691
Latimer	640	653
Dumont	766	875
Totals	<u>27,512</u>	<u>28,702</u>



**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, 2010 and 2009, 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 20, 2010. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting listed as findings II-A-10 and II-B-10. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Franklin General Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part IV of the accompanying Schedule of Findings and Questioned Costs. 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.

Franklin General Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Franklin General Hospital and other parties to whom Franklin General Hospital may report, including federal awarding agencies and pass-through entities. 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 20, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON ITS
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

Compliance

We have audited the compliance of Franklin General Hospital with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. Franklin General Hospital's major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of Franklin General Hospital. Our responsibility is to express an opinion on Franklin General Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin General Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Franklin General Hospital's compliance with those requirements.

In our opinion, Franklin General Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Franklin General Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Franklin General Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Franklin General Hospital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Franklin General Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Franklin General Hospital's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Franklin General Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Franklin General Hospital and other parties to whom Franklin General Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Dubuque, Iowa
October 20, 2010

FRANKLIN GENERAL HOSPITAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
United States Department of Agriculture			
Pass-through program from:			
Franklin Rural Electric Cooperative			
Rural Economic Development Loans and Grants	10.854	IA-030 Franklin	\$ 740,000
Pass-through program from:			
Corn Belt Power Cooperative			
Rural Economic Development Loans and Grants	10.854	IA 84	<u>300,000</u>
Total United States Department of Agriculture			<u>1,040,000</u>
Department of Health and Human Services			
Pass-through program from:			
Iowa Department of Public Health			
Public Health Emergency Preparedness	93.069	5880BHP202	<u>2,211</u>
Small Rural Hospital Improvement Grant Program	93.301	5880SH21	<u>7,750</u>
National Bioterrorism Hospital Preparedness Program	93.889	5880BHP25	15,133
National Bioterrorism Hospital Preparedness Program	93.889	5880BHP202	<u>16,033</u>
			<u>31,166</u>
Pass-through program from:			
Waverly Health Center			
National Bioterrorism Hospital Preparedness Program	93.889	5889BHP02	<u>5,285</u>
Pass-through program from:			
Hancock County Memorial Hospital			
Rural Health Care Services Outreach and Rural Health Network Development Program	93.912	D04RH12698	<u>5,001</u>
Total Department of Health and Human Services			<u>51,413</u>
Grand Total			<u><u>\$ 1,091,413</u></u>

FRANKLIN GENERAL HOSPITAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Franklin General Hospital and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified No
Significant deficiencies Yes (Part II)

Noncompliance material to financial statements noted No

Federal Awards

Internal control over the major program:

Material weakness identified No
Significant deficiency Yes (Part III)

Type of auditor's report issued on compliance for the major program Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) Yes

Identification of major program:

CFDA Number

10.854

Name of Federal Program or Cluster

Rural Economic Development Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee No

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-10 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.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

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.

II-B-10 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.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

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.

Part III: Findings and Questioned Costs for Federal Awards:

SIGNIFICANT DEFICIENCY

CFDA Number 10.854: Rural Economic Development Loans and Grants

Pass-through Agency Number: IA-030 Franklin and IA 84

United States Department of Agriculture

Passed through Franklin Rural Electric Cooperative and Corn Belt Power Cooperative

- III-A-10 Segregation of Duties over Federal Expenditures – A lack of segregation of duties over expenditures, including those related to federal programs, exists in the Finance Department of Franklin General Hospital. See audit finding II-A-10.

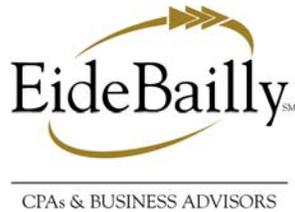
Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- IV-B-10 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.
- IV-C-10 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- IV-D-10 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- IV-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

- IV-F-10 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.
- IV-G-10 Publication of Bills Allowed and Salaries – Chapter 347.13(11) 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.
- IV-H-10 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.



The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the financial statements of Franklin General Hospital for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, 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 18, 2010. 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 Franklin General Hospital are described in Note 1 to the financial statements. The Hospital adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by the Hospital during the year for which there is a 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, 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.

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.

We discussed all adjustments to the financial statements with management during the audit. The following adjustments were made during the 2010 audit.

To adjust allowance for doubtful accounts	\$	200,000
To adjust estimated third-party payor settlements		162,065
To adjust interest expense		(111,000)
Other adjustments		(33,938)

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, 2010.

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.

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management 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.



Dubuque, Iowa
October 20, 2010

xc: Mr. Kim Price, CEO



The Board of Trustees
Franklin General Hospital
Hampton, Iowa

In planning and performing our audit of the financial statements of Franklin General Hospital (Hospital) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Hospital's internal control to be significant deficiencies:

Preparation of Financial Statements

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). 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 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. 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. 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.

Segregation of Duties

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

This communication 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
October 20, 2010

xc: Mr. Kim Price, CEO