

FRANKLIN GENERAL HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

**FRANKLIN GENERAL HOSPITAL
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YEARS ENDED JUNE 30, 2012 AND 2011**

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

<u>Name</u>	<u>Board of Trustees</u>	<u>Term Expires</u>
Allan Menning	Chairperson	2014
Jan Siems	Secretary	2012
John Trewin	Treasurer	2012
Linda Kuehner	Member	2012
April Hemmes	Member	2016
Pamela Rusinack	Member	2016
Brenton Schwab	Member	2014

Administration

Kim Price	Chief Executive Officer
Shelly Craighton	Chief Financial Officer
Chris Eckhoff	Chief Nursing Officer/Assistant Administrator

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INDEPENDENT AUDITORS' REPORT

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, 2012, 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 year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Franklin General Hospital as of June 30, 2011, were audited by other auditors whose report dated October 18, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of Franklin General Hospital's internal control over financial reporting and on 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.

Board of Trustees
Franklin General Hospital

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 38 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 and the Budgetary Comparison Information on pages 36 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

This discussion and analysis of the financial performance of Franklin General Hospital (FGH) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2012, 2011, and 2010. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short- and long-term information about its activities. The balance sheets include all of the Hospital's assets and liabilities, as well as the Franklin General Hospital Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and Foundation and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2012, indicates total assets of \$29,895,689, total liabilities of \$10,403,369, and total net assets of \$19,492,329. Net assets increased \$1,249,678 or 6.9% from last fiscal year.
- The Hospital's net capital assets increased \$1,416,366 or 7.1% to \$21,355,577.
- The Hospital's outstanding debt totaled \$7,549,925. This is an increase of \$627,681 or 9.1% from last fiscal year.

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**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Financial Highlights (Continued)

- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total operating revenues of \$15,968,666, an increase of 2.1% from last fiscal year, and total operating expenses of \$16,154,900, an increase of 5.1% from last fiscal year. The resulting loss from operations is \$186,233, a \$450,449 decrease from last fiscal year. A net nonoperating gain of \$1,318,003 brings the excess of revenues over expenses to \$1,131,770, which is a 25.6% decrease from last fiscal year.

Organization Highlights

Franklin General Hospital continued to make many positive changes over this last fiscal year, including but not limited to:

- Narrowed FGH focus to 8-key organization metrics
- Strengthened huddles throughout facility
- Finished the third year of building project that included:
 - Completion of private rooms
 - Remodeling and equipment upgrade of north operating room
 - New Same Day Surgery area
 - New PACU area
 - Family meditation room
 - Upgrade of heating and cooling units
- Completed and complied under first year of Meaningful Use
- Added Cafeteria to building project and utilized 3P process to develop layout
- Developed relationship with Mercy Medical Center-North Iowa to bring Nuclear Medicine in-house.

Condensed Financial Statements

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	\$ 8,413,604	\$ 5,643,694	\$ 8,092,883
Noncurrent Cash and Investments	126,517	2,574,349	30,959
Capital Assets, Net	21,355,577	19,939,211	16,242,958
Other Assets	-	39,656	41,552
Total Assets	<u><u>\$ 29,895,698</u></u>	<u><u>\$ 28,196,910</u></u>	<u><u>\$ 24,408,352</u></u>
Liabilities:			
Total Current Liabilities	\$ 3,325,346	\$ 3,112,651	\$ 3,096,051
Long-Term Debt (Less Current Maturities)	7,059,276	6,822,869	4,811,270
Other Liabilities	18,747	18,739	19,232
Total Liabilities	<u>10,403,369</u>	<u>9,954,259</u>	<u>7,926,553</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	13,805,652	13,016,967	11,431,688
Unrestricted	5,686,677	5,225,684	5,050,111
Total Net Assets	<u>19,492,329</u>	<u>18,242,651</u>	<u>16,481,799</u>
Total Liabilities and Net Assets	<u><u>\$ 29,895,698</u></u>	<u><u>\$ 28,196,910</u></u>	<u><u>\$ 24,408,352</u></u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Condensed Financial Statements (Continued)

Table 2: Statement of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Net Patient Service Revenue	\$ 15,739,839	\$ 15,439,498	\$ 14,556,584
Other Revenue	228,827	196,038	212,028
Total Operating Revenues	<u>15,968,666</u>	<u>15,635,536</u>	<u>14,768,612</u>
Expenses			
Salaries and Wages	5,916,823	6,009,178	5,670,811
Employee Benefits	1,535,769	1,453,869	1,354,343
Supplies and Miscellaneous	6,955,105	6,379,272	6,060,008
Depreciation	1,500,202	1,344,407	1,026,637
Interest	247,000	184,594	111,000
Total Expenses	<u>16,154,899</u>	<u>15,371,320</u>	<u>14,222,799</u>
Operating Income (Loss)	(186,233)	264,216	545,813
Due from Affiliated Organization	-	-	(22,906)
Adjusted Operating Income (Loss)	(186,233)	264,216	522,907
Nonoperating Income	<u>1,318,003</u>	<u>1,256,197</u>	<u>1,300,142</u>
Excess Of Revenues Over Expenses	1,131,770	1,520,413	1,823,049
Capital Contributions and Grants	142,998	272,328	3,085
Foundation Expenses	(25,090)	(31,889)	(23,522)
Change in Net Assets	<u>1,249,678</u>	<u>1,760,852</u>	<u>1,802,612</u>
Net Assets Beginning of Year	<u>18,242,651</u>	<u>16,481,799</u>	<u>14,679,187</u>
Net Assets End of Year	<u>\$ 19,492,329</u>	<u>\$ 18,242,651</u>	<u>\$ 16,481,799</u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Capital Assets

New construction and remodeling continued throughout the facility as we finished the third year of our three-year building project. At June 30, 2012, the Hospital had \$21,355,577 in net capital assets. This is an increase of \$1,416,366 or 7.1% from last fiscal year, and is mostly due to the building project, which included:

- Completion of private rooms
- Remodeling and equipment upgrade of north operating room
- New Same Day Surgery area
- New PACU area
- Family meditation room
- Upgrade of heating and cooling units

Long-Term Debt

FGH continues to pay for the building project through a combination of cash flow and the construction note with the local banks. At June 30, 2012, the Hospital's had \$7,549,925 in outstanding debt. This is an increase of \$627,681 or 9.1% from last fiscal year, and is due to the building project.

Summary

Franklin General Hospital continues to be extremely proud of the excellent patient care, dedication, commitment, and support each of our 180 employees and Medical Staff provides to every person they serve.

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 Financial Information

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional information, please contact Kim Price, CEO, or Shelly Craighton, CFO, at:

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

**FRANKLIN GENERAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,544,163	\$ 2,413,355
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$500,458 in 2012 and \$506,487 in 2011	1,764,645	1,689,923
Succeeding Year Property Tax Receivable	1,178,302	1,175,887
Current Investments	2,503,562	-
Other Receivables	80,193	63,020
Inventories	167,669	166,457
Prepaid Expenses	135,839	135,052
Estimated Third-Party Payor Settlements Receivable	39,231	-
Total Current Assets	8,413,604	5,643,694
NONCURRENT CASH AND INVESTMENTS		
Restricted by Resident Trust Agreement	1,246	1,239
Internally Designated for Capital Acquisition	125,271	2,573,110
Total Noncurrent Cash and Investments	126,517	2,574,349
 CAPITAL ASSETS, NET	 21,355,577	 19,939,211
 OTHER ASSETS		
Investment in Joint Venture	-	39,656
Total Other Assets	-	39,656
Total Assets	\$ 29,895,698	\$ 28,196,910

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 490,649	\$ 99,375
Accounts Payable:		
Trade	180,295	145,580
Construction	469,285	724,664
Affiliated Organization	163,183	138,729
Accrued Expenses:		
Salaries and Wages	222,640	189,035
Vacation	481,941	475,906
Payroll Taxes and Other	114,451	137,388
Interest	24,600	22,087
Deferred Revenue for Succeeding Year Property Tax Receivable	1,178,302	1,175,887
Third-Party Payor Settlement Payable	-	4,000
Total Current Liabilities	<u>3,325,346</u>	<u>3,112,651</u>
LONG-TERM DEBT , Less Current Maturities	7,059,276	6,822,869
OTHER LIABILITIES		
Lease Deposit	17,500	17,500
Residents' Cash Fund	1,247	1,239
Total Other Liabilities	<u>18,747</u>	<u>18,739</u>
 Total Liabilities	 10,403,369	 9,954,259
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	13,805,652	13,016,967
Unrestricted	5,686,677	5,225,684
Total Net Assets	<u>19,492,329</u>	<u>18,242,651</u>
 Total Liabilities and Net Assets	 <u>\$ 29,895,698</u>	 <u>\$ 28,196,910</u>

**FRANKLIN GENERAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 73,934	\$ 60,934
Certificates of Deposit	195,000	195,143
Investments in Mutual Funds	328,132	336,150
Pledges Receivable (Less Allowance for Doubtful Accounts)	111,324	195,870
Interest Receivable	226	270
Total Current Assets	708,616	788,367
Beneficial Interest in Net Assets of Community Foundations	193,336	202,674
Total Assets	\$ 901,952	\$ 991,041
LIABILITIES AND NET ASSETS		
LIABILITIES		
Annuity Obligation	\$ 21,425	\$ 21,425
Other Liabilities	16	20
Total Liabilities	21,441	21,445
NET ASSETS		
Unrestricted	535,012	505,177
Temporarily Restricted	152,163	261,745
Permanently Restricted	193,336	202,674
Total Net Assets	880,511	969,596
Total Liabilities and Net Assets	\$ 901,952	\$ 991,041

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Net Patient Service Revenues, Net of Provision for Bad Debt of \$926,477 in 2012 and \$897,259 in 2011	\$ 15,739,839	\$ 15,439,498
Other Revenue	228,827	196,038
Total Revenues	15,968,666	15,635,536
EXPENSES		
Salaries and Wages	5,916,823	6,009,178
Employee Benefits	1,535,769	1,453,869
Supplies and Miscellaneous	6,955,105	6,379,272
Depreciation	1,500,202	1,344,407
Interest	247,000	184,594
Total Expenses	16,154,899	15,371,320
OPERATING INCOME (LOSS)	(186,233)	264,216
NONOPERATING INCOME (LOSS)		
Income on Investment in Joint Venture	8,913	23,241
Tax Revenue	1,176,307	1,081,918
Noncapital Grants and Contributions	24,603	15,841
Interest Income	40,576	52,020
Gain (Loss) on Disposal of Capital Assets	(6,124)	6,647
Gain from Franklin Prairie Apartments	57,868	68,983
Other Non-Operating	15,860	7,547
Nonoperating Income, Net	1,318,003	1,256,197
EXCESS OF REVENUES OVER EXPENSES	1,131,770	1,520,413
Capital Contributions and Grants	142,998	272,328
Transfers to Franklin General Hospital Foundation	(25,090)	(31,889)
INCREASE IN NET ASSETS	1,249,678	1,760,852
Net Assets, Beginning of Year	18,242,651	16,481,799
NET ASSETS, END OF YEAR	\$ 19,492,329	\$ 18,242,651

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions	\$ 65,252	\$ 32,620	\$ -	\$ 97,872
Earnings from Investments	9,074	-	-	9,074
Total Revenues	<u>74,326</u>	<u>32,620</u>	<u>-</u>	<u>106,946</u>
EXPENSES				
Gifts to Franklin General Hospital	25,401	142,202	-	167,603
Professional Fees	4,690	-	-	4,690
Foundation Coordinator	20,317	-	-	20,317
Supplies & Miscellaneous	19,172	-	-	19,172
Total Expenses	<u>69,580</u>	<u>142,202</u>	<u>-</u>	<u>211,782</u>
Excess (Deficit) of Revenues Over Expenses	4,746	(109,582)	-	(104,836)
Change in Value Charitable Annuity Obligation	-	-	-	-
Change in Beneficial Interest in Net Assets of Community Foundations	-	-	(9,338)	(9,338)
Transfer from Franklin General Hospital	<u>25,089</u>	<u>-</u>	<u>-</u>	<u>25,089</u>
Change in Net Assets	29,835	(109,582)	(9,338)	(89,085)
Net Assets – Beginning	<u>505,177</u>	<u>261,745</u>	<u>202,674</u>	<u>969,596</u>
Net Assets – Ending	<u><u>\$ 535,012</u></u>	<u><u>\$ 152,163</u></u>	<u><u>\$ 193,336</u></u>	<u><u>\$ 880,511</u></u>

See accompanying Notes to Financial Statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 43,254	\$ 320,060	\$ -	\$ 363,314
82,950	-	27,439	110,389
<u>126,204</u>	<u>320,060</u>	<u>27,439</u>	<u>473,703</u>
14,759	236,625	-	251,384
4,540	-	-	4,540
26,921	-	-	26,921
2,847	-	-	2,847
<u>49,067</u>	<u>236,625</u>	<u>-</u>	<u>285,692</u>
77,137	83,435	27,439	188,011
(3,457)	-	-	(3,457)
-	-	-	-
<u>31,889</u>	<u>-</u>	<u>-</u>	<u>31,889</u>
105,569	83,435	27,439	216,443
<u>399,608</u>	<u>178,310</u>	<u>175,235</u>	<u>753,153</u>
<u>\$ 505,177</u>	<u>\$ 261,745</u>	<u>\$ 202,674</u>	<u>\$ 969,596</u>

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 15,624,301	\$ 15,389,754
Cash Paid to Employees	(7,433,368)	(6,018,335)
Cash Paid to Suppliers	(6,858,279)	(7,819,243)
Other Receipts and Payments, Net	209,239	234,173
Net Cash Provided (Used) by Operating Activities	1,541,893	1,786,349
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	24,603	15,841
County Taxes	1,176,307	1,081,442
Transfer to Franklin General Hospital Foundation	(25,090)	(31,889)
Income from Franklin Prairie Apartments	57,868	195,728
Miscellaneous Non-Operating Revenue	15,860	7,547
Net Cash Provided by Non-Capital Financing Activities	1,249,548	1,268,669
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(3,178,071)	(5,287,637)
Proceeds from the Sale of Property and Equipment	-	6,647
Proceeds from Issuance of Long-Term Debt	727,056	2,110,974
Capital Grants and Contributions	142,998	272,328
Payments on Long-Term Debt	(99,375)	-
Interest Payments on Long-Term Debt	(247,000)	(176,811)
Net Cash Used by Capital and Related Financing Activities	(2,654,392)	(3,074,499)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Physician Advances	-	25,137
Purchase of Investments	(2,500,000)	(2,537,976)
Sale and maturities of investments	-	2,500,000
Income on Investment from Affiliated Organization	-	-
Change in assets limited to use	2,447,832	-
Interest Earned on Investments	49,489	52,020
Net Cash Provided (Used) by Investing Activities	(2,679)	39,181
INCREASE IN CASH AND CASH EQUIVALENTS	134,370	19,700
Cash and Cash Equivalents - Beginning	2,413,355	2,393,655
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,547,725	\$ 2,413,355

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (186,233)	\$ 264,216
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation	1,500,202	1,344,407
Interest Expense considered capital and related financing activity	247,000	184,594
Provision for Bad Debt	926,477	897,259
Changes in Assets and Liabilities:		
Patient Receivables	(1,001,199)	(841,868)
County Tax Levy Receivable		
Accounts Receivable - Other	(19,588)	-
Accounts Receivable - Affiliated Organizations		
Inventories	(1,212)	15,044
Prepaid Expenses	(787)	(12,342)
Accounts Payable	59,169	(25,289)
Accrued Expenses	19,224	27,328
Investment in Joint Venture	39,656	-
Deferred Revenue	2,415	-
Third-Party Payor Settlements Receivable (Payable)	(43,231)	(67,000)
Net Cash Provided by Operating Activities	\$ 1,541,893	\$ 1,786,349

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (89,085)	\$ 216,443
Loss on Investments	-	(91,180)
Adjustments to Reconcile Excess of Revenues Over		
Change in Beneficial Interest in Net Assets of Community Foundations	9,338	-
Expenses to Net Cash Provided by Operating Activities:		
Pledges Receivables	84,546	(107,144)
Increase in Interest Receivable	44	364
Increase in Other Liabilities	(4)	(29,047)
Decrease in Annuity Obligation	-	(2,784)
Net Cash Provided (Used) by Operating Activities	4,839	(13,348)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Charitable Gift Annuity	8,018	-
Maturities of Certificates of Deposit	102,643	200,000
Purchase of Certificates of Deposit	(102,500)	(195,143)
Net Cash Used by Investing Activities	8,161	4,857
 Net Increase (Decrease) in Cash and Cash Equivalents	13,000	(8,491)
 Cash and Cash Equivalents – Beginning of Year	60,934	69,425
 Cash and Cash Equivalents - End of Year	\$ 73,934	\$ 60,934

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Franklin General Hospital (Hospital) is the county hospital of Franklin County, Iowa, and is organized under Chapter 347 of the Code of Iowa. 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.

Tax Exempt Status

The Hospital is an Iowa non-profit 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 subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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 (GASB) 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Presentation (Continued)

Restricted net assets

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

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'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 (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.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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. Estimates also affect 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

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. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$500,500 and \$506,500

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.

Inventories

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

Noncurrent Cash and Investments

Noncurrent cash and investments 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 for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenue to the extent expended within the period.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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

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 projected vacation payouts is recorded as a current liability on the balance sheet based on rates of pay that are in effect at June 30, 2012 and 2011.

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

Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$30,107 and \$28,355 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Charity Care

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

County Tax Revenues

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

Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Electronic Health Record Incentive Payments

As discussed in Note 5, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Hospital will meet all meaningful use objectives and any other specific grant requirements that are applicable, *e.g.*, electronic transmission of quality measures to CMS in the second and subsequent payment years.

Subsequent Events

The Hospital has evaluated subsequent events through November 19, 2012 the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$5,642,101 and \$5,225,684 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated \$125,271 and \$68,683, respectively, for the acquisition of capital assets. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes.

NOTE 3 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 \$49,598 and \$54,062 for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011 were approximately \$48,200 and \$54,300, respectively.

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

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

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 NET PATIENT 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, 2010.

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, 2010.

Nursing Home

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

Other Payors

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

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 7%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2012, and 53% and 19%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2011.

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

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 NET PATIENT AND RESIDENT SERVICE REVENUE(CONTINUED)

Other Payors (Continued)

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, 2012 and 2011 is as follows:

	2012	2011
Total Patient Service Revenue	\$ 23,939,407	\$ 22,938,948
Contractual Adjustments:		
Medicare	(5,037,013)	(4,728,200)
Medicaid	(455,335)	(606,841)
Provision for Bad Debt	(926,477)	(897,259)
Other	(1,780,743)	(1,267,150)
Total Contractual Adjustments and Bad Debts	(8,199,568)	(7,499,450)
Net Patient Service Revenues	\$ 15,739,839	\$ 15,439,498

NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the Hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Hospital must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by ¼, ½, and ¾.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

The Hospital demonstrated meaningful use to the 90-day period ended August 31, 2011 and received notice of the first tentative incentive payment of \$22,300 during the year ended June 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net assets. The final amount of this payment will be determined based on information from the Hospitals' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 6 CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2012 and 2011 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, 2012 and 2011, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2012</u>	<u>2011</u>
Checking and Savings Accounts	\$ 2,670,680	\$ 2,483,277
Certificates of Deposit	2,503,562	2,504,427
Total Deposits	<u>\$ 5,174,242</u>	<u>\$ 4,987,704</u>

Included in the following balance sheet captions:

	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 2,544,163	\$ 2,413,355
Current Investments	2,503,562	-
Noncurrent Cash and Investments:		
Restricted by Resident Trust Agreement	1,246	1,239
Internally Designated for Capital Acquisition	125,271	2,573,110
	<u>\$ 5,174,242</u>	<u>\$ 4,987,704</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 6 CASH AND DEPOSITS (CONTINUED)

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

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

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

NOTE 7 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2012 and 2011 are the following:

	2012	2011
Receivable from Patients and Their Insurance Carriers	\$ 1,705,285	\$ 1,793,768
Receivable from Medicare	490,705	361,293
Receivable from Medicaid	69,113	41,349
Total Patient Receivables	2,265,103	2,196,410
Less: Allowance for Doubtful Accounts	(500,458)	(506,487)
Patient Receivables, Net	\$ 1,764,645	\$ 1,689,923

NOTE 8 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows:

	June 30, 2011	Additions	(Retirements)	June 30, 2012
Capital Assets				
Land and Land Improvements	\$ 1,115,563	\$ 152,102	\$ -	\$ 1,267,665
Building	11,609,758	784,652	-	12,394,410
Fixed Equipment	10,055,862	2,567,530	-	12,623,392
Major Movable Equipment	3,890,771	460,512	(203,862)	4,147,421
Construction in Progress	4,187,091	2,584,794	(3,501,694)	3,270,191
Totals	\$ 30,859,045	\$ 6,549,590	\$ (3,705,556)	\$ 33,703,079
Accumulated Depreciation				
Land Improvements	\$ 274,538	\$ 83,137	\$ -	\$ 357,675
Building	5,073,568	503,416	-	5,576,984
Fixed Equipment	2,951,856	607,791	-	3,559,647
Major Movable Equipment	2,619,872	430,062	(196,738)	2,853,196
Totals	\$ 10,919,834	\$ 1,624,406	\$ (196,738)	\$ 12,347,502
	\$ 19,939,211			\$ 21,355,577

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 CAPITAL ASSETS (CONTINUED)

	June 30, 2010	Additions	(Retirements)	June 30, 2011
Capital Assets				
Land and Land Improvements	\$ 562,482	\$ -	\$ 553,081	\$ 1,115,563
Building	8,670,164	-	2,939,594	11,609,758
Fixed Equipment	5,646,919	-	4,408,943	10,055,862
Major Movable Equipment	3,553,880	419,258	(82,367)	3,890,771
Construction in Progress	7,601,073	4,748,146	(8,162,128)	4,187,091
	<u>\$ 26,034,518</u>	<u>\$ 5,167,404</u>	<u>\$ (342,877)</u>	<u>\$ 30,859,045</u>
Accumulated Depreciation				
Land Improvements	\$ 222,968	\$ 51,570	\$ -	\$ 274,538
Building	4,587,127	486,441	-	5,073,568
Fixed Equipment	2,506,372	445,484	-	2,951,856
Major Movable Equipment	2,475,093	487,657	(342,878)	2,619,872
	<u>\$ 9,791,560</u>	<u>\$ 1,471,152</u>	<u>\$ (342,878)</u>	<u>\$ 10,919,834</u>
	<u>\$ 16,242,958</u>			<u>\$ 19,939,211</u>

The majority of construction in progress at June 30, 2012, 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. At June 30, 2012 remaining project costs consist of approximately \$3,500,000, which will be completed during 2013.

NOTE 9 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. Unconditional promises to give are found on the Foundation financial statements. Promises to give are due as follows:

	2012	2011
Less Than One Year	\$ 50,619	\$ 89,595
One to Five Years	81,780	136,913
	<u>132,399</u>	<u>226,508</u>
Less Unamortized Discount	(11,075)	(19,312)
Less Allowance for Uncollectible Promises to Give	(10,000)	(11,326)
	<u>\$ 111,324</u>	<u>\$ 195,870</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 OTHER ASSETS

Investment in Joint Venture

The joint venture represents a 25% investment in Mobile Radiology, LC, a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$0 and \$23,241 in 2012 and 2011, respectively. The Hospital recorded a receivable for the final equity distribution for \$18,570 during the year ended June 30, 2012. During the year ended June 30, 2011, the Hospital did not receive equity distributions. On June 30, 2011, Mobile Radiology, LC ceased operations. The final distribution was declared during fiscal year 2012. The financial statements of the joint venture are available upon request from Mobile Radiology, LC.

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 and were fully amortized as of June 30, 2012.

NOTE 11 LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2012 and 2011 is as follows:

	Balance July 1, 2011	Additions	(Payments)	Balance June 30, 2012	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 360,000	\$ -	\$ (30,000)	\$ 330,000	\$ 45,000
Promissory Note, FREC	740,000	-	(69,375)	670,625	92,500
Promissory Note, MFP Project	5,822,244	727,056	-	6,549,300	353,149
Total Long-Term Debt	<u>\$ 6,922,244</u>	<u>\$ 727,056</u>	<u>\$ (99,375)</u>	<u>\$ 7,549,925</u>	<u>\$ 490,649</u>
	Balance July 1, 2010	Additions	(Payments)	Balance June 30, 2011	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 360,000	\$ -	\$ -	\$ 360,000	\$ 30,000
Promissory Note, FREC	740,000	-	-	740,000	69,375
Promissory Note, MFP Project	3,711,270	2,110,974	-	5,822,244	-
Total Long-Term Debt	<u>\$ 4,811,270</u>	<u>\$ 2,110,974</u>	<u>\$ -</u>	<u>\$ 6,922,244</u>	<u>\$ 99,375</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 LONG-TERM DEBT (CONTINUED)

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

Years Ending June 30,	Long-Term Debt	
	Principal	Interest
2013	\$ 490,649	\$ 270,858
2014	522,753	278,405
2015	522,753	260,587
2016	522,753	242,770
2017	522,753	224,952
2018-2022	2,239,389	857,489
2023-2027	1,926,265	412,040
2028-2032	802,610	40,214
	\$ 7,549,925	\$ 2,587,315

A summary of interest cost on borrowed funds during the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Interest Cost:		
Capitalized as Part of Construction Project	\$ 33,398	\$ 48,797
Recognized as Interest Expense	247,000	184,594
Total	\$ 280,398	\$ 233,391

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 became payable on August 1, 2009 and is due 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%.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 LONG-TERM DEBT (CONTINUED)

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 commenced 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.

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 commenced 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.

NOTE 12 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, 2012 and 2011 was \$253,491 and \$224,716, respectively.

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

Years Ending June 30,	Total
2013	\$ 190,800
2014	163,800
2015	154,800
2016	154,800
2017	129,000

NOTE 13 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATIONS AND ANNUITY OBLIGATIONS

The Foundation is a benefactor of an annuity life contribution maintained by an independent trustee, Minnesota Foundation (Community Foundation). The Community Foundation's assets are to be held in perpetuity. The Foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The gifts have been recognized in the financial statements as beneficial interest in net assets of the Community Foundation. It should be noted, however, that the Foundation has granted the Community Foundation variance power, which allows the Community Foundation to modify the Foundation's stipulations under certain circumstances as the Community Foundation monitors the changing needs of the community.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATIONS AND ANNUITY OBLIGATIONS (CONTINUED)

Under the annuity agreement, the Foundation was given the contribution under the condition it pay an annual annuity of \$7,382 for the remainder of the donor and donor's spouse's life. A liability is recognized for the estimated present value of the annuity obligation, and the assets are recorded at their fair market value for agreement where the Foundation is the trustee. Liability under unitrust agreement represents the net present value of the estimated remaining payments (using a discount rate of 7.2%) due to the annuitants; this liability is revalued annually for changes in the life of the trust. The remaining annuity obligation at June 30, 2012 and 2011 was \$192,336 and \$202,674, respectively.

The Foundation is also the beneficiary of an endowment fund held in its name by the Northeast Iowa Community Foundation. The endowment is to be held in perpetuity with investments proceeds available for distribution to the Foundation. The amount held by the Northeast Iowa Foundation was \$1,000 and \$0 at June 30, 2012 and 2011, respectively.

NOTE 14 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 5.38% of their annual covered salary, and the Hospital is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% and 4.30% of their annual covered salary, and the Hospital was required to contribute 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$453,689, \$463,024, and \$434,494, respectively, equal to the required contributions for each year.

NOTE 15 FAIR VALUE MEASUREMENTS

The Foundation has determined the fair value of certain assets and liabilities recognized or disclosed at fair value in the financial statements in accordance with the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 provides a framework for measuring fair value under generally accepted accounting principles.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 15 FAIR VALUE MEASUREMENTS (CONTINUED)

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the related asset or liability and are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data related to the asset or liability.

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2012 and 2011, respectively:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2012			
Assets			
Investments in mutual funds	\$ 328,132	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundations	<u>-</u>	<u>-</u>	<u>193,336</u>
	<u>\$ 328,132</u>	<u>\$ -</u>	<u>\$ 193,336</u>
Liabilities			
Annuity Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,425</u>
June 30, 2011			
Assets			
Investments in mutual funds	\$ 336,150	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundations	<u>-</u>	<u>-</u>	<u>202,674</u>
	<u>\$ 336,150</u>	<u>\$ -</u>	<u>\$ 202,674</u>
Liabilities			
Annuity Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,425</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 15 FAIR VALUE MEASUREMENTS (CONTINUED)

The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses. The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses, during the year ended June 30, 2011 and 2012 were classified as follows in the statement of activities and changes in net assets:

	2012	2011
Balance, beginning of year	\$ 21,425	\$ 24,209
Payments made to annuitant	(7,382)	(7,382)
Increase due to change in estimated life expectancy	7,382	4,598
Balance, end of year	\$ 21,425	\$ 21,425

NOTE 16 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 \$1,786,701 and \$1,624,995 for the years ended June 30, 2012 and 2011, respectively.

Per the Hospital's Master Affiliation Agreement with MMC-NI, 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. There were no operating gains to be allocated to MMC-NI for the year ended June 30, 2012 and 2011.

Management Services Agreement

The Hospital has a contractual arrangement with MMC-NI under which MMC-NI provides an administrator, chief nursing officer, 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 \$603,844 and \$488,977 for the years ended June 30, 2012 and 2011, respectively.

Due to Affiliated Organization

As of June 30, 2012 and 2011, the Hospital's records reflect a due to MMC-NI of \$163,184 and \$138,729, respectively, for the various services provided.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 16 RELATED PARTY TRANSACTIONS (CONTINUED)

Franklin Prairie Apartments

The Hospital owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company. The lease calls for monthly rent payments of \$17,000 through September 2016. Future minimum rent payments to be received are as follows:

Years Ending June 30,	Total
2013	\$ 204,000
2014	204,000
2015	204,000
2016	51,000

NOTE 17 COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

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

Excess Liability Umbrella Insurance

The Hospital also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$1 million per occurrence and an annual aggregate limit of \$1 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient and resident services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient and resident services previously billed.

NOTE 18 RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 19 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, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	31%	30%
Medicaid	4%	7%
Commercial Insurance	35%	25%
Other Third-Party Payors, Patients, and Residents	<u>30%</u>	<u>38%</u>
	<u>100%</u>	<u>100%</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**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, 2012**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,176,307	\$ -	\$ 1,176,307	\$ 1,143,333	\$ 32,974
Estimated Other Revenues/Receipts	<u>16,253,360</u>	<u>598,054</u>	<u>16,851,414</u>	<u>20,070,276</u>	<u>(3,218,862)</u>
	17,429,667	598,054	18,027,721	21,213,609	(3,185,888)
Expenses/Disbursements	<u>16,179,989</u>	<u>1,661,194</u>	<u>17,841,183</u>	<u>21,133,999</u>	<u>(3,292,816)</u>
Net	1,249,678	(1,063,140)	186,538	79,610	106,928
Balance Beginning of Year	<u>18,242,651</u>	<u>(13,254,947)</u>	<u>4,987,704</u>	<u>5,314,231</u>	<u>(326,527)</u>
Balance End of Year	<u><u>\$ 19,492,329</u></u>	<u><u>\$ (14,318,087)</u></u>	<u><u>\$ 5,174,242</u></u>	<u><u>\$ 5,393,841</u></u>	<u><u>\$ (219,599)</u></u>

**FRANKLIN GENERAL HOSPITAL
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012**

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 Franklin General 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, 2012.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2012 AND 2011

	TOTAL	
	<u>2012</u>	<u>2011</u>
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,591,545	\$ 1,665,423
OTHER PROFESSIONAL SERVICES		
Operating Room	844,873	790,073
Anesthesiology	452,763	415,722
Radiology	3,656,040	3,159,204
Laboratory	3,371,531	3,121,939
Respiratory Therapy	360,775	531,268
Physical Therapy	1,873,164	1,645,632
Occupational Therapy	203,996	252,970
Speech Therapy	48,974	40,168
Electrocardiology	164,039	110,011
Medical and Surgical Supplies	869,234	866,974
Pharmacy	1,227,477	1,272,393
Wound Therapy	17,006	19,731
Cardiac Rehabilitation	124,845	167,152
Infusion Therapy	344,837	242,899
Long-Term Care	2,689,146	2,690,534
Clinical Operations	4,204,248	4,185,198
Emergency Services	1,090,670	994,281
Ambulance	853,842	821,438
Total Gross Patient Service Revenues	<u>23,989,005</u>	<u>22,993,010</u>
Less Charity Care	<u>(49,598)</u>	<u>(54,062)</u>
Total Patient Service Revenues	<u>\$ 23,939,407</u>	<u>\$ 22,938,948</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (5,037,013)	\$ (4,728,200)
Medicaid	(455,335)	(606,841)
Other	(1,780,743)	(1,267,150)
Provision for Bad Debts	<u>(926,477)</u>	<u>(897,259)</u>
Total Deductions	<u>(8,199,568)</u>	<u>(7,499,450)</u>
Net Patient Service Revenues	<u>\$ 15,739,839</u>	<u>\$ 15,439,498</u>

INPATIENT		OUTPATIENT	
2012	2011	2012	2011
\$ 1,306,880	\$ 1,323,013	\$ 284,665	\$ 342,410
7,481	13,714	837,392	776,359
2,718	8,898	450,045	406,824
120,256	106,684	3,535,784	3,052,520
248,544	279,675	3,122,987	2,842,264
157,360	299,908	203,415	231,360
354,848	295,333	1,518,316	1,350,299
114,584	135,576	89,412	117,394
24,133	8,404	24,841	31,764
6,066	5,996	157,973	104,015
308,263	266,351	560,971	600,623
445,722	494,131	781,755	778,262
1,809	1,409	15,197	18,322
-	-	124,845	167,152
5,522	7,157	339,315	235,742
2,689,146	2,690,534	-	-
-	-	4,204,248	4,185,198
12,989	12,810	1,077,681	981,471
33,642	48,515	820,200	772,923
<u>\$ 5,839,963</u>	<u>\$ 5,998,108</u>	<u>\$ 18,149,042</u>	<u>\$ 16,994,902</u>

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**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 5,037,013	\$ 4,728,200
Contractual Adjustments - Medicaid	455,335	606,841
Provision for Bad Debt	926,477	897,259
Other Allowances and Adjustments	<u>1,780,743</u>	<u>1,267,150</u>
 Total Adjustments	 <u>\$ 8,199,568</u>	 <u>\$ 7,499,450</u>
OTHER REVENUES		
Clinic Rent Income	\$ 49,252	\$ 42,576
Pharmacy Rent	14,214	14,214
Dietary	40,716	49,081
Grant Revenue	35,926	40,715
Medical Record Transcripts	1,545	1,882
Miscellaneous	<u>87,174</u>	<u>47,570</u>
 Total Other Revenues	 <u>\$ 228,827</u>	 <u>\$ 196,038</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
Employee Benefits	\$ 1,535,769	\$ 1,453,869
Administrative and General	1,914,583	1,612,303
Marketing	48,401	37,990
Operation of Plant	207,814	220,589
Repairs and Maintenance	256,644	253,657
Laundry and Linen	142,312	127,652
Housekeeping	189,872	170,237
Dietary	501,764	481,290
Central Sterile	36,207	23,280
Adults and Pediatrics	954,925	1,007,640
Nursing Administration	48,370	124,860
Purchasing	52,725	46,490
Medical Records	136,427	149,507
Social Services	53,277	49,901
Medical and Surgical	19,160	32,802
Nursing Facility	1,195,998	1,186,852
Operating Room	316,166	281,704
Anesthesiology	153,907	139,814
Radiology	849,572	853,379
Laboratory	603,044	619,334
Respiratory Therapy	30,608	34,085
Physical Therapy	684,123	603,848
Occupational Therapy	61,369	69,001
Speech Therapy	18,982	17,439
Wound Therapy	9,676	10,444
Electrocardiology	14,071	12,973
Central Supply	99,827	128,341
Pharmacy	500,264	470,296
Cardiac Rehab	51,561	50,611
Infusion Therapy	14,010	15,354
Clinics	2,885,755	2,799,241
Emergency Room	576,027	499,242
Ambulance	221,486	225,194
Patient Education	22,321	33,028
Community Education	681	72
Depreciation	1,500,201	1,344,407
Interest	247,000	184,594
TOTAL	\$ 16,154,899	\$ 15,371,320

SALARIES		OTHER	
2012	2011	2012	2011
\$ -	\$ -	\$ 1,535,769	\$ 1,453,869
487,884	414,565	1,426,699	1,197,738
23,143	16,309	25,258	21,681
-	-	207,814	220,589
161,553	146,427	95,091	107,230
16,380	17,342	125,932	110,310
155,402	140,291	34,470	29,946
268,569	272,628	233,195	208,662
28,707	20,755	7,500	2,525
859,123	926,730	95,802	80,910
43,975	113,628	4,395	11,232
51,406	45,130	1,319	1,360
92,496	104,728	43,931	44,779
52,113	49,056	1,164	845
-	-	19,160	32,802
976,222	1,054,009	219,776	132,843
179,591	130,938	136,575	150,766
-	-	153,907	139,814
212,195	205,855	637,377	647,524
278,835	271,954	324,209	347,380
5,744	4,851	24,864	29,234
105,121	99,229	579,002	504,619
-	-	61,369	69,001
-	-	18,982	17,439
-	-	9,676	10,444
9,705	7,072	4,366	5,901
-	-	99,827	128,341
-	-	500,264	470,296
40,991	42,599	10,570	8,012
14,010	14,507	-	847
1,486,372	1,594,282	1,399,383	1,204,959
166,399	110,098	409,628	389,144
181,787	180,872	39,699	44,322
18,836	25,323	3,485	7,705
264	-	417	72
-	-	1,500,201	1,344,407
-	-	247,000	184,594
<u>\$ 5,916,823</u>	<u>\$ 6,009,178</u>	<u>\$ 10,238,076</u>	<u>\$ 9,362,142</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2012 AND 2011**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital)	\$ 1,830,729	61.60 %	\$ 1,597,685	55.77 %
31-60 Days	361,946	12.18	302,128	10.55
61-90 Days	138,121	4.65	165,118	5.76
91 Days and Over	641,003	21.57	799,623	27.92
Total Accounts Receivable	<u>2,971,799</u>	<u>100.00 %</u>	<u>2,864,554</u>	<u>100.00 %</u>

ALLOWANCES

Contractual:		
Medicare	420,599	500,761
Medicaid and Other	286,097	167,383
Doubtful Accounts	<u>500,458</u>	<u>506,487</u>
Net Accounts Receivable	<u>\$ 1,764,645</u>	<u>\$ 1,689,923</u>
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 45,661</u>	<u>\$ 44,758</u>
Days of Net Revenue in net Accounts Receivable at Year End	<u>\$ 39</u>	<u>\$ 38</u>

Analysis of Allowance for Doubtful Accounts

	2012		2011	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 506,487		\$ 420,074	
Add:				
Provision for Doubtful Accounts	926,477	0.06 %	897,259	0.06 %
Recoveries Previously Written Off	224,203	0.01 %	195,645	0.01 %
	<u>1,150,680</u>		<u>1,092,904</u>	
Deduct:				
Accounts Written Off	<u>(1,156,709)</u>	(0.07)%	<u>(1,006,491)</u>	(0.06)%
Ending Balance	<u>\$ 500,458</u>		<u>\$ 506,487</u>	

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSES
JUNE 30, 2012 AND 2011**

	2012	2011
INVENTORIES		
Medical / Surgical	\$ 34,834	\$ 26,268
Laboratory	95,299	102,000
Pharmacy	37,536	38,189
Total Inventories	\$ 167,669	\$ 166,457
 PREPAID EXPENSES		
Insurance	\$ 84,010	\$ 71,734
Rent	4,200	4,200
Other	47,629	59,118
Total Prepaid Expenses	\$ 135,839	\$ 135,052

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ACUTE		
Admissions	180	188
Discharges	184	187
Average Length of Stay	3.48	3.50
Patient Days	640	655
Occupancy Percentage	7.01%	7.18%
Beds	25	25
SWING BED		
Admissions	96	102
Discharges	95	101
Average Length of Stay	12.57	13.53
Patient Days	1,194	1,367
NURSING FACILITY		
Admissions	29	31
Discharges	28	31
Patient Days	17,631	18,092
Occupancy Percentage	92.9%	95.3%
Beds	52	52



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www.cliftonlarsonallen.com

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

Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheet of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of June 30, 2012, 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 year then ended, and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1 and 2012-2 to be material weaknesses.

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, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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. This report is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

Material Weaknesses:

2012-1 Segregation of Duties

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

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

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

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

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

Conclusion – Response accepted.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

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

2012-2 Preparation of Financial Statements

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

Condition – Franklin General Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 **Certified Budget** – Disbursements during the year ended June 30, 2012, did not exceed the amount budgeted.
- II-B-12 **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-12 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-12 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-12 **Deposits and Investments** – No instances of compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.
- II-G-12 **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 of Iowa.
- II-H-12 **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. An audit was not required for the year ended June 30, 2012.