FRANKLIN GENERAL HOSPITAL

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

FRANKLIN GENERAL HOSPITAL
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YEARS ENDED JUNE 30, 2013 AND 2012

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FRANKLIN GENERAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL ADMINISTRATION

Name	Board of Trustees	Term Expires
Allan Menning	Chairperson	2014
Jan Siems	Secretary	2018
John Trewin	Treasurer	2018
Linda Kuehner	Member	2018
April Hemmes	Member	2016
Pamela Rusinack	Member	2016
Brenton Schwab	Member	2014

HOSPITAL OFFICIALS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Franklin General Hospital (Hospital) and its discretely presented component unit, Franklin General Hospital Foundation (Foundation), which comprise the statements of net position and statements of activities as of June 30, 2013 and 2012, respectively, and the related combined statements of revenues, expenses and changes in net position, statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Trustees
Franklin General Hospital

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Franklin General Hospital and its discretely presented component unit as of June 30, 2013, and the respective changes in its financial position and its cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 – 7 and Budgetary Comparison on pages 35-36 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 37 through 44 is presented for the purpose of additional analysis and are not a required part of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2013 on our consideration of Franklin General Hospital's internal control over financial reporting and on our test 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Franklin General Hospital's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 22, 2013

FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012

This discussion and analysis of the financial performance of Franklin General Hospital (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2013, 2012, and 2011. 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 Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, 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 Statements of Net Position include all of the Hospital's assets and liabilities, as well as the Franklin General Hospital Foundation's net position, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The Statements of Net Position 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 Position. 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 Statements of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Hospital and Foundation and the changes in them. The Hospital's net position - 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 position 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 Statement of Net Position at June 30, 2013, indicates total assets of $29,330,012, total liabilities of $7,665,595, and total net position of $20,440,404. Net position increased $948,075 or 4.9% from last fiscal year.
- The Hospital's net capital assets decreased $334,611 or 1.6% to $21,020,966.
- The Hospital's outstanding debt totaled $6,059,276. This is a decrease of $1,490,649 or 19.7% from last fiscal year.

Financial Highlights (Continued)

- The Statements of Revenues, Expenses, and Changes in Net Position reflects total operating revenues of $16,942,481, an increase of 6.1% from last fiscal year, and total operating expenses of $17,084,709, an increase of 5.8% from last fiscal year. The resulting loss from operations is $142,228, a $44,005 improvement from last fiscal year. A net non-operating gain of $1,249,009 brings the excess of revenues over expenses to $1,106,781, which is a 2.2% decrease from last fiscal year.

Organization Highlights

Franklin General Hospital continued to make many positive changes over the past year, including but not limited to:

- Completed a 3.5 year Master Facility Project
- Developed a FY14 Strategic plan that rolled out July 2013
- Narrowed the strategic plan focus to 5 key organizational metrics
- Hired new female family practice physician
- Began participation in 340B Drug Program
- Developed partnership with Mercy Medical Center - North Iowa to transition Nuclear Medicine Services from a mobile service to an internal permanent service
- Continued process excellence journey with facility and staff

Condensed Financial Statements

Table 1: Statements of Net Position

	2013	2012	2011
Assets:			
Current Assets	$ 8,245,124	$ 8,413,604	$ 5,643,694
Noncurrent Cash and Investments	63,922	126,517	2,574,349
Capital Assets, Net	21,020,966	21,355,577	19,939,211
Other Assets	-	-	39,656
Total Assets	$ 29,330,012	$ 29,895,698	$ 28,196,910
Liabilities:			
Total Current Liabilities	$ 1,899,787	$ 2,147,044	$ 1,936,764
Long-Term Debt (Less Current Maturities)	5,536,523	7,059,276	6,822,869
Other Liabilities	18,285	18,747	18,739
Total Liabilities	7,454,595	9,225,067	8,778,372
Deferred Inflows of Resources	1,224,013	1,178,302	1,175,887
Net Position:			
Net Investment in Capital Assets	14,961,690	13,805,652	13,016,967
Unrestricted	5,689,714	5,686,677	5,225,684
Total Net Position	20,651,404	19,492,329	18,242,651
Total Liabilities and Net Position	$ 29,330,012	$ 29,895,698	$ 28,196,910

Condensed Financial Statements (Continued)

Table 2: Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net Patient Service Revenue	$ 16,735,644	$ 15,739,839	$ 15,439,498
Other Revenue	206,837	228,827	196,038
Total Operating Revenues	16,942,481	15,968,666	15,635,536
Expenses			
Salaries and Wages	5,858,188	5,916,823	6,009,178
Employee Benefits	1,566,477	1,535,769	1,453,869
Supplies and Miscellaneous	7,643,512	6,955,105	6,379,272
Depreciation	1,756,481	1,500,202	1,344,407
Interest	260,051	247,000	184,594
Total Expenses	17,084,709	16,154,899	15,371,320
Operating Loss	(142,228)	(186,233)	264,216
Nonoperating Income	1,249,009	1,318,003	1,256,197
Excess Of Revenues Over Expenses	1,106,781	1,131,770	1,520,413
Capital Contributions and Grants	85,550	142,998	272,328
Foundation Expenses	(33,256)	(25,090)	(31,889)
Change in Net Position	1,159,075	1,249,678	1,760,852
Net Position Beginning of Year	19,492,329	18,242,651	16,481,799
Net Position End of Year	$ 20,651,404	$ 19,492,329	$ 18,242,651

Capital Assets

New construction and remodeling throughout the facility was finished during the current year. At June 30, 2013, the Hospital had $21,020,966 in net capital assets. This is a decrease of $334,611 or 1.6% from last fiscal year, and is mostly due to the retirement of multiple assets.

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, 2013, the Hospital had $6,059,276 in outstanding debt. This is a decrease of $1,490,649 or 19.7% from last fiscal year, and is due to a $1,000,000 payment during the year.

Summary

Franklin General Hospital continues to be extremely proud of the patient care that its employees and Medical Staff provide to the residents of Franklin County and the surrounding communities.

The goal at FGH is to transition from "Sick Care" to "Health Care" and to develop relationships with businesses and patients to truly improve the health of each person with which we come into contact. FGH will continue to narrow its focus to monitor the fundamental metrics to ensure there is continued improvement for each of the strategic areas.

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Contacting the Hospital's Finance Department

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
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,461,717	$ 2,544,163
Patient Receivables, Less Allowance for Uncollectible Accounts of $509,356 in 2013 and $500,458 in 2012	1,661,189	1,764,645
Succeeding Year Property Tax Receivable	1,224,013	1,178,302
Current Investments	1,500,000	2,500,000
Other Receivables	60,423	83,755
Inventories	153,472	167,669
Prepaid Expenses	184,310	135,839
Estimated Third-Party Payor Settlements Receivable	-	39,231
Total Current Assets	8,245,124	8,413,604
NONCURRENT CASH AND INVESTMENTS		
Restricted by Resident Trust Agreement	785	1,246
Internally Designated for Capital Acquisition	63,137	125,271
Total Noncurrent Cash and Investments	63,922	126,517
CAPITAL ASSETS, NET	21,020,966	21,355,577
Total Assets	$ 29,330,012	$ 29,895,698

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	2013	2012
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 522,753	$ 490,649
Accounts Payable:		
Trade	135,470	180,295
Construction	108,008	469,285
Affiliated Organization	202,494	163,183
Accrued Expenses:		
Salaries and Wages	236,238	222,640
Vacation	482,505	481,941
Payroll Taxes and Other	115,704	114,451
Interest	20,027	24,600
Third-Party Payor Settlement Payable	76,588	-
Total Current Liabilities	1,899,787	2,147,044
LONG-TERM DEBT, Less Current Maturities	5,536,523	7,059,276
OTHER LIABILITIES		
Lease Deposit	17,500	17,500
Residents' Cash Fund	785	1,247
Total Other Liabilities	18,285	18,747
Total Liabilities	7,454,595	9,225,067
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue for Succeeding Year Property Tax Receivable	1,224,013	1,178,302
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	14,961,690	13,805,652
Unrestricted	5,689,714	5,686,677
Total Net Position	20,651,404	19,492,329
Total Liabilities and Net Position	$ 29,330,012	$ 29,895,698

FRANKLIN GENERAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 319,992	$ 73,934
Certificates of Deposit	195,000	195,000
Investment in Mutual Funds	375,692	328,132
Promises to Give, Current Portion	37,200	50,622
Interest Receivable	187	226
Total Current Assets	928,071	647,914
Beneficial Interest in Net Assets of Community Foundations	210,817	193,336
OTHER ASSETS		
Promises to Give, Less Current Portion	18,220	60,702
Total Assets	$ 1,157,108	$ 901,952
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Other Liabilities	$ 1,710	$ 16
Annuity Obligation	21,375	21,425
Total Current Liabilities	23,085	21,441
NET ASSETS		
Unrestricted	844,274	535,012
Temporarily Restricted	78,932	152,163
Permanently Restricted	210,817	193,336
Total Net Assets	1,134,023	880,511
Total Liabilities and Net Assets	$ 1,157,108	$ 901,952

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Net Patient Service Revenues, Net of Provision for Bad Debt of $993,026 in 2013 and $926,477 in 2012	$ 16,735,644	$ 15,739,839
Other Revenue	206,837	228,827
Total Revenues	16,942,481	15,968,666
EXPENSES		
Salaries and Wages	5,858,188	5,916,823
Employee Benefits	1,566,477	1,535,769
Supplies and Miscellaneous	7,643,512	6,955,105
Depreciation	1,756,481	1,500,202
Interest	260,051	247,000
Total Expenses	17,084,709	16,154,899
OPERATING LOSS	(142,228)	(186,233)
NONOPERATING INCOME (LOSS)		
Income on Investment in Joint Venture	-	8,913
Tax Revenue	1,179,517	1,176,307
Noncapital Grants and Contributions	24,061	24,603
Contributions Made	(20,000)	-
Investment Income	19,540	40,576
Gain (Loss) on Disposal of Capital Assets	(25,991)	(6,124)
Gain from Franklin Prairie Apartments	63,975	57,868
Other Non-Operating	7,907	15,860
Nonoperating Income, Net	1,249,009	1,318,003
EXCESS OF REVENUES OVER EXPENSES	1,106,781	1,131,770
Capital Contributions and Grants	85,550	142,998
Transfers to Franklin General Hospital Foundation	(33,256)	(25,090)
INCREASE IN NET POSITION	1,159,075	1,249,678
Net Position, Beginning of Year	19,492,329	18,242,651
NET POSITION, END OF YEAR	$ 20,651,404	$ 19,492,329

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	$ 260,599	$ 8,911	$ -	$ 269,510
Reduction of Allowance	-	13,335	-	13,335
Investment Income	65,449	-	-	65,449
Net Asset Released from Restrictions	95,477	(95,477)	-	-
Total Revenues	421,525	(73,231)	-	348,294
EXPENSES				
Gifts to Franklin General Hospital	109,611	-	-	109,611
Professional Fees	5,500	-	-	5,500
Foundation Coordinator	27,484	-	-	27,484
Supplies and Other	2,924	-	-	2,924
Total Expenses	145,519	-	-	145,519
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	276,006	(73,231)	-	202,775
Change in Beneficial Interest in Net Assets of Community Foundations	-	-	17,481	17,481
Transfer from Franklin General Hospital	33,256	-	-	33,256
INCREASE IN NET ASSETS	309,262	(73,231)	17,481	253,512
Net Assets, Beginning of Year	535,012	152,163	193,336	880,511
NET ASSETS, END OF YEAR	$ 844,274	$ 78,932	$ 210,817	$ 1,134,023

See accompanying Notes to Financial Statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 65,252	$ 32,620	$ -	$ 97,872
-	-	-	-
9,074	-	-	9,074
142,202	(142,202)	-	-
216,528	(109,582)	-	106,946
167,603	-	-	167,603
4,690	-	-	4,690
20,317	-	-	20,317
19,172	-	-	19,172
211,782	-	-	211,782
4,746	(109,582)	-	(104,836)
-	-	(9,338)	(9,338)
25,089	-	-	25,089
29,835	(109,582)	(9,338)	(89,085)
505,177	261,745	202,674	969,596
$ 535,012	$ 152,163	$ 193,336	$ 880,511

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	$ 17,000,630	$ 15,624,301
Cash Paid to Employees	(7,414,285)	(7,433,368)
Cash Paid to Suppliers	(7,683,300)	(6,858,279)
Other Receipts and Payments, Net	184,458	205,677
Net Cash Provided by Operating Activities	2,087,503	1,538,331
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	24,061	24,603
County Taxes	1,179,517	1,176,307
Transfer to Franklin General Hospital Foundation	(33,256)	(25,090)
Income from Franklin Prairie Apartments	63,975	57,868
Miscellaneous Non-Operating Revenue	7,907	15,860
Net Cash Provided by Non-Capital Financing Activities	1,242,204	1,249,548
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(1,811,938)	(3,178,071)
Proceeds from the Sale of Property and Equipment	2,800	
Proceeds from Issuance of Long-Term Debt	-	727,056
Capital Grants and Contributions	85,550	142,998
Payments on Long-Term Debt	(1,490,649)	(99,375)
Interest Payments on Long-Term Debt	(260,051)	(247,000)
Net Cash Used by Capital and Related Financing Activities	(3,474,288)	(2,654,392)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	-	(2,500,000)
Sale and Maturities of Investments	1,000,000	-
Change in Assets Limited to Use	62,595	2,447,832
Interest Earned on Investments	19,540	49,489
Net Cash Provided (Used) by Investing Activities	1,082,135	(2,679)
INCREASE IN CASH AND CASH EQUIVALENTS	937,554	130,808
Cash and Cash Equivalents - Beginning	2,544,163	2,413,355
CASH AND CASH EQUIVALENTS - ENDING	$ 3,481,717	$ 2,544,163

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (142,228)	$ (186,233)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	1,756,481	1,500,202
Interest Expense Considered Capital and Related Financing Activity	260,051	247,000
Provision for Bad Debt	993,026	926,477
Changes in Assets and Liabilities:		
Patient Receivables	(889,570)	(1,001,199)
Accounts Receivable - Other	(22,379)	(23,150)
Inventories	14,197	(1,212)
Prepaid Expenses	(48,471)	(787)
Accounts Payable	(5,514)	59,169
Accrued Expenses	10,380	19,224
Investment in Joint Venture	-	39,656
Deferred Revenue	45,711	2,415
Third-Party Payor Settlements Receivable (Payable)	115,819	(43,231)
Net Cash Provided by Operating Activities	$ 2,087,503	$ 1,538,331

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	$ 253,512	$ (89,085)
Adjustments to Reconcile Increase in Net Assets to Cash Provided by Operating Activities:		
Change in Unrealized Gains and Losses on Investments	(56,165)	-
Change in Beneficial Interest in Net Assets of Community Foundations	(17,481)	9,338
Changes in Assets and Liabilities:		
Promises to Give	55,904	84,546
Interest Receivable	39	44
Annuity Obligation	(50)	(4)
Other Liabilities	1,694	-
Net Cash Provided by Operating Activities	237,453	4,839
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments - Mutual Funds	8,605	8,018
Maturities of Certificates of Deposit	-	102,643
Purchases of Certificates of Deposit	-	(102,500)
Net Cash Provided by Investing Activities	8,605	8,161
NET INCREASE IN CASH AND CASH EQUIVALENTS	246,058	13,000
Cash and Cash Equivalents - Beginning	73,934	60,934
CASH AND CASH EQUIVALENTS - ENDING	$ 319,992	$ 73,934

See accompanying Notes to Financial Statements.

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, which it leases to a management company.

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.

Tax Exempt Status

The Foundation 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 Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation 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 Foundation 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.

Basis of Presentation

The Statements of Net Position display the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

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

Basis of Presentation (Continued)

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

Restricted net position

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

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

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

When both restricted and unrestricted net position is 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.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). 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.

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.

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

Cash and Cash Equivalents

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

Patient and Resident Receivables

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

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

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate. At June 30, 2013 and 2012, the allowance for uncollectible accounts was approximately $509,400 and $500,500.

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.

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

Noncurrent Cash and Investments (Continued)

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.

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 position 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 paid time off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time off payouts is recorded as a current liability on the statement of net position based on rates of pay that are in effect at June 30, 2013 and 2012.

Deferred Inflows of Resources

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 inflows of resources 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 inflows of resources consists of succeeding year property tax receivable.

Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Position 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.

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

Net Patient and Resident Service Revenue (Continued)

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

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred $47,650 and $30,107 for advertising costs for the years ended June 30, 2013 and 2012, 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.

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

Fair Value Measurements (Continued)

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.

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.

Change in Accounting Standards

The Hospital adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from "net assets" to "net position". The financial statements include the Statement of Net Position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB 62, all governmental accounting guidance is codified into the GASB literature.

Subsequent Events

The Hospital has evaluated subsequent events through November 22, 2013 the date which the financial statements were available to be issued.

NOTE 2 CHARITY CARE AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were $60,126 and $49,598 for the years ended June 30, 2013 and 2012, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2013 and 2012 were approximately $39,100 and $32,500, respectively.

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

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

NOTE 3 DESIGNATED NET POSITION

Of the $5,478,714 and $5,686,677 of unrestricted net position at June 30, 2013 and 2012, respectively, the Board of Trustees has designated $63,137 and $125,271, 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 4 NET PATIENT RESIDENT AND 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 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, 2011.

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, 2011.

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 53% and 7%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2013, and 51% and 7%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2012.

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.

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, 2013 and 2012 is as follows:

	2013	2012
Total Patient Service Revenue	$ 25,396,528	$ 23,939,407
Contractual Adjustments:		
Medicare	(5,098,106)	(5,037,013)
Medicaid	(313,490)	(455,335)
Provision for Bad Debt	(993,026)	(926,477)
Other	(2,256,262)	(1,780,743)
Total Contractual Adjustments and Bad Debts	(8,660,884)	(8,199,568)
Net Patient Service Revenues	$ 16,735,644	$ 15,739,839

NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the 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.

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 position. The final amount of this payment will be determined based on information from the Hospital's Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 6 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2013 and 2012 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 ensure 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, 2013 and 2012, the Hospital's carrying amounts of cash and deposits are as follows:

	2013	2012
Checking and Savings Accounts	$ 3,525,639	$ 2,670,680
Certificates of Deposit	1,500,000	2,500,000
Total Deposits	$ 5,025,639	$ 5,170,680

Included in the following statement of net position captions:

	2013	2012
Cash and Cash Equivalents	$ 3,461,717	$ 2,544,163
Current Investments	1,500,000	2,500,000
Noncurrent Cash and Investments:		
Restricted by Resident Trust Agreement	785	1,246
Internally Designated for Capital Acquisition	63,137	125,271
	$ 5,025,639	$ 5,170,680

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 AND RESIDENT RECEIVABLES

Patient and resident receivables reported as current assets by the Hospital at June 30, 2013 and 2012 are the following:

	2013	2012
Receivable from Patients and Their Insurance Carriers	$ 1,354,695	$ 1,705,285
Receivable from Medicare	703,711	490,705
Receivable from Medicaid	112,139	69,113
Total Patient Receivables	2,170,545	2,265,103
Less Allowance for Doubtful Accounts	(509,356)	(500,458)
Patient Receivables, Net	$ 1,661,189	$ 1,764,645

NOTE 8 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows:

	June 30, 2012	Additions	(Retirements)	Transfers	June 30, 2013
Capital Assets					
Land and Land Improvements	$ 1,267,665	$ -	$ (1,102)	$ 109,960	$ 1,376,523
Building	12,394,410	37,538	(105,073)	1,264,410	13,591,285
Fixed Equipment	12,623,392	-	(421,954)	2,890,316	15,091,754
Major Movable Equipment	4,147,421	233,785	(400,731)	133,566	4,114,041
Construction in Progress	3,270,191	1,302,527	-	(4,398,252)	174,466
Totals	$ 33,703,079	$ 1,573,850	$ (928,860)	$ -	$ 34,348,069
Accumulated Depreciation					
Land Improvements	$ 357,675	$ 93,694	$ (1,101)	$ -	$ 450,268
Building	5,576,984	528,550	(92,957)	-	6,012,577
Fixed Equipment	3,559,647	819,601	(412,707)	-	3,966,541
Major Movable Equipment	2,853,196	437,823	(393,302)	-	2,897,717
Totals	$ 12,347,502	$ 1,879,668	$ (900,067)	$ -	$ 13,327,103
	$ 21,355,577				$ 21,020,966

	June 30, 2011	Additions	(Retirements)	Transfers	June 30, 2012
Capital Assets					
Land and Land Improvements	$ 1,115,563	$ -	$ -	$ 152,102	$ 1,267,665
Building	11,609,758	23,450	-	761,202	12,394,410
Fixed Equipment	10,055,862	11,001	-	2,556,529	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	(31,861)	(3,469,833)	3,270,191
Totals	$ 30,859,045	$ 3,079,757	$ (235,723)	$ -	$ 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

NOTE 8 CAPITAL ASSETS (CONTINUED)

During the year ended June 30, 2013 the facility finished their master facility project. All costs associated with this project have now been capitalized and are being depreciated. The majority of construction in progress at June 30, 2013, represents costs incurred for software upgrades.

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:

	2013	2012
Less Than One Year	$ 37,200	$ 50,619
One to Five Years	23,502	81,780
	60,702	132,399
Less Unamortized Discount	(2,365)	(11,075)
Less Allowance for Uncollectible Promises to Give	(2,917)	(10,000)
	$ 55,420	$ 111,324

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2013 and 2012 is as follows:

	Balance July 1, 2012	Additions	(Payments)	Balance June 30, 2013	Amounts Due Within One Year
Promissory Note, Corn Belt Power	$ 330,000	$ -	$ (45,000)	$ 285,000	$ 45,000
Promissory Note, FREC	670,625	-	(92,500)	578,125	92,500
Promissory Note, MFP Project	6,549,300	-	(1,353,149)	5,196,151	385,253
Total Long-Term Debt	$ 7,549,925	$ -	$ (1,490,649)	$ 6,059,276	$ 522,753

	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	$ 6,922,244	$ 727,056	$ (99,375)	$ 7,549,925	$ 490,649

NOTE 10 LONG-TERM DEBT (CONTINUED)

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

	Long-Term Debt	
Years Ending June 30,	Principal	Interest
2014	$ 522,753	$ 232,155
2015	522,753	214,337
2016	522,753	196,520
2017	522,753	178,702
2018	522,753	160,884
2019-2023	2,101,889	537,149
2024-2027	1,343,622	110,962
	$ 6,059,276	$ 1,630,709

A summary of interest cost on borrowed funds during the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Interest Cost:		
Capitalized as Part of Construction Project	$ -	$ 33,398
Recognized as Interest Expense	260,051	247,000
Total	$ 260,051	$ 280,398

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 could have drawn 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 December 1, 2026.

The interest rate shall reset every five years, beginning July 1, 2014, to an interest rate equal to the thirty-day average of the five-year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.40%. At each reset date, the change in interest rate shall be subject to a 150-basis point cap per reset date and a floor of 4.125%. If on any reset date, the five-year Federal Home Loan Bank Des Moines fixed rate advance rate is not available, the interest shall equal the average adjusted constant maturity rate of the five-year U.S. Treasury notes as published weekly in the *Wall Street Journal* for the four weeks preceding the reset date, plus 2.15%.

Promissory Note, 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. Of these funds, $300,000 was borrowed through the federal program Rural Economic Development Loans and Grants.

NOTE 10 LONG-TERM DEBT (CONTINUED)

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 11 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, 2013 and 2012 was $213,000 and $253,000, respectively.

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

Years Ending June 30,	Total
2014	$ 154,800
2015	154,800
2016	154,800
2017	129,000

NOTE 12 BENEFICIAL INTEREST IN NET POSITION 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 position 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.

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, 2013 and 2012 was $21,375 and $21,425, respectively.

NOTE 12 BENEFICIAL INTEREST IN NET POSITION OF COMMUNITY FOUNDATIONS AND ANNUITY OBLIGATIONS (CONTINUED)

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 $2,127 and $1,000 at June 30, 2013 and 2012, respectively.

NOTE 13 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 5.78% of their annual covered salary, and the Hospital is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.37% and 4.50% of their annual covered salary, and the Hospital was required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were $492,751, $453,689, and $463,024, respectively, equal to the required contributions for each year.

NOTE 14 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.

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.

NOTE 14 FAIR VALUE MEASUREMENTS (CONTINUED)

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2013 and 2012, respectively:

	Level 1	Level 2	Level 3
June 30, 2013			
Assets			
Investments in Mutual Funds	$ 375,692	$ -	$ -
Beneficial Interest in Net Assets of Community Foundations	-	-	210,817
	$ 375,692	$ -	$ 210,817
Liabilities			
Annuity Payable	$ -	$ -	$ 21,375

	Level 1	Level 2	Level 3
June 30, 2012			
Assets			
Investments in Mutual Funds	$ 328,132	$ -	$ -
Beneficial Interest in Net Assets of Community Foundations	-	-	193,336
	$ 328,132	$ -	$ 193,336
Liabilities			
Annuity Payable	$ -	$ -	$ 21,425

The amount of gains and losses is related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses, during the years ended September 30, 2013 and 2012, were classified as follows in the Statement of Activities and Changes in Net Position:

	2013	2012
Balance, Beginning of Year	$ 21,425	$ 21,425
Payments Made to Annuitant	(7,382)	(7,382)
Increase Due to Change in Estimated Life Expectancy	7,332	7,382
Balance, End of Year	$ 21,375	$ 21,425

NOTE 15 RELATED PARTY TRANSACTIONS

Master Affiliation Agreement

Franklin General Hospital operates under a Management Services and Affiliation Agreement with Mercy Health Network (MHN) to provide hospital, physician, and other health care services in Franklin County and the north central Iowa region. As a part of the Management Services and Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MHN whereby MHN provides professional medical services. Amounts paid to MHN for the provision of these services amounted to $2,646,700 and $1,786,701 for the years ended June 30, 2013 and 2012, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS (CONTINUED)

Master Affiliation Agreement (Continued)

Per the Hospital's Management Services and Affiliation Agreement with MHN, 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 MHN. There were no operating gains to be allocated to MHN for the year ended June 30, 2013 and 2012.

Management Services Agreement

The Hospital has a contractual arrangement with MHN under which MHN provides a Chief Executive Officer, 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 $618,175 and $603,844 for the years ended June 30, 2013 and 2012, respectively.

Due to Affiliated Organization

As of June 30, 2013 and 2012, the Hospital's records reflect a due to MHN of $202,494 and $163,184, respectively, for the various services provided.

Franklin Prairie Apartments

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

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

NOTE 16 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.

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 17 RISK MANAGEMENT

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

NOTE 18 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, 2013 and 2012 was as follows:

	2013	2012
Medicare	40%	31%
Medicaid	5%	4%
Commercial Insurance	22%	35%
Other Third-Party Payors, Patients, and Residents	33%	30%
	100%	100%

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REQUIRED SUPPLEMENTARY INFORMATION

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FRANKLIN GENERAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 1,179,517	$ -	$ 1,179,517	$ 1,144,860	$ 34,657
Estimated Other Revenues/Receipts	17,097,523	1,291,398	18,388,921	18,793,486	(404,565)
	18,277,040	1,291,398	19,568,438	19,938,346	(369,908)
Expenses/Disbursements	17,117,965	1,575,514	18,693,479	19,185,599	(492,120)
Net	1,159,075	(284,116)	874,959	752,747	122,212
Balance, Beginning of Year	19,492,329	(16,821,649)	2,670,680	5,312,195	(2,641,515)
Balance, End of Year	$ 20,651,404	$ (17,105,765)	$ 3,545,639	$ 6,064,942	$ (2,519,303)

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, 2013.

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2013 AND 2012

	TOTAL	
	2013	2012
PATIENT CARE SERVICES		
Medical and Surgical	$ 1,837,496	$ 1,591,545
OTHER PROFESSIONAL SERVICES		
Operating Room	763,918	844,873
Anesthesiology	435,433	452,763
Radiology	3,869,158	3,656,040
Laboratory	3,800,821	3,371,531
Respiratory Therapy	477,079	360,775
Physical Therapy	2,021,473	1,873,164
Occupational Therapy	200,045	203,996
Speech Therapy	39,634	48,974
Electrocardiology	159,399	164,039
Medical and Surgical Supplies	912,042	869,234
Pharmacy	1,237,400	1,227,477
Wound Therapy	13,746	17,006
Cardiac Rehab	135,073	124,845
Infusion Therapy	317,560	344,837
Nursing Facility	2,885,598	2,689,146
Clinics	4,297,270	4,204,248
Emergency Room	1,140,887	1,090,670
Ambulance	912,622	853,842
Total Gross Patient Service Revenues	25,456,654	23,989,005
Less Charity Care	(60,126)	(49,598)
Total Patient Service Revenues	$ 25,396,528	$ 23,939,407
CONTRACTUAL ADJUSTMENTS		
Medicare	$ (5,098,106)	$ (5,037,013)
Medicaid	(313,490)	(455,335)
Other	(2,256,262)	(1,780,743)
Provision for Bad Debts	(993,026)	(926,477)
Total Deductions	(8,660,884)	(8,199,568)
Net Patient Service Revenues	$ 16,735,644	$ 15,739,839

INPATIENT		OUTPATIENT	
2013	2012	2013	2012
$ 1,569,040	$ 1,306,880	$ 268,456	$ 284,665
12,838	7,481	751,080	837,392
6,220	2,718	429,213	450,045
149,998	120,256	3,719,160	3,535,784
268,059	248,544	3,532,762	3,122,987
205,357	157,360	271,722	203,415
305,435	354,848	1,716,038	1,518,316
109,869	114,584	90,176	89,412
16,524	24,133	23,110	24,841
8,170	6,066	151,229	157,973
351,965	308,263	560,077	560,971
478,070	445,722	759,330	781,755
1,730	1,809	12,016	15,197
-	-	135,073	124,845
13,730	5,522	303,830	339,315
2,885,598	2,689,146	-	-
-	-	4,297,270	4,204,248
24,102	12,989	1,116,785	1,077,681
45,444	33,642	867,178	820,200
$ 6,452,149	$ 5,839,963	$ 19,004,505	$ 18,149,042

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FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	$ 5,098,106	$ 5,037,013
Contractual Adjustments - Medicaid	313,490	455,335
Provision for Bad Debt	993,026	926,477
Other Allowances and Adjustments	2,256,262	1,780,743
Total Adjustments	$ 8,660,884	$ 8,199,568
OTHER REVENUES		
Clinic Rent Income	$ 51,609	$ 49,252
Pharmacy Rent	14,214	14,214
Dietary	42,604	40,716
Grant Revenue	35,712	35,926
Medical Record Transcripts	1,297	1,545
Miscellaneous	61,401	87,174
Total Other Revenues	$ 206,837	$ 228,827

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	TOTAL	
	2013	2012
Employee Benefits	$ 1,566,477	$ 1,535,769
Administrative and General	1,919,420	1,914,583
Marketing	41,979	48,401
Operation of Plant	237,141	207,814
Repairs and Maintenance	259,169	256,644
Laundry and Linen	141,631	142,312
Housekeeping	204,476	189,872
Dietary	493,106	501,764
Central Sterile	35,004	36,207
Adults and Pediatrics	1,063,538	954,925
Nursing Administration	36,662	48,370
Purchasing	51,888	52,725
Medical Records	138,386	136,427
Social Services	50,376	53,277
Medical and Surgical	25,906	19,160
Nursing Facility	1,216,252	1,195,998
Operating Room	320,753	316,166
Anesthesiology	136,731	153,907
Radiology	878,492	849,572
Laboratory	620,071	603,044
Respiratory Therapy	34,734	30,608
Physical Therapy	752,102	684,123
Occupational Therapy	77,832	61,369
Speech Therapy	15,061	18,982
Wound Therapy	6,034	9,676
Electrocardiology	14,328	14,071
Central Supply	93,991	99,827
Pharmacy	484,231	500,264
Cardiac Rehab	46,358	51,561
Infusion Therapy	17,508	14,010
Clinics	3,173,871	2,885,755
Emergency Room	626,605	576,027
Ambulance	271,136	221,486
Patient Education	16,723	22,321
Community Education	205	681
Depreciation	1,756,481	1,500,201
Interest	260,051	247,000
TOTAL	$ 17,084,709	$ 16,154,899

SALARIES		OTHER	
2013	2012	2013	2012
$ -	$ -	$ 1,566,477	$ 1,535,769
532,957	487,884	1,386,463	1,426,699
5,528	23,143	36,451	25,258
-	-	237,141	207,814
140,005	161,553	119,164	95,091
12,096	16,380	129,535	125,932
170,917	155,402	33,559	34,470
268,682	268,569	224,424	233,195
23,897	28,707	11,107	7,500
923,877	859,123	139,661	95,802
28,343	43,975	8,319	4,395
50,521	51,406	1,367	1,319
81,551	92,496	56,835	43,931
50,221	52,113	155	1,164
-	-	25,906	19,160
978,207	976,222	238,045	219,776
216,333	179,591	104,420	136,575
-	-	136,731	153,907
218,474	212,195	660,018	637,377
280,863	278,835	339,208	324,209
7,161	5,744	27,573	24,864
58,116	105,121	693,986	579,002
-	-	77,832	61,369
-	-	15,061	18,982
-	-	6,034	9,676
8,580	9,705	5,748	4,366
-	-	93,991	99,827
-	-	484,231	500,264
39,700	40,991	6,658	10,570
11,494	14,010	6,014	-
1,352,976	1,486,372	1,820,895	1,399,383
177,901	166,399	448,704	409,628
203,527	181,787	67,609	39,699
16,058	18,836	665	3,485
203	264	2	417
-	-	1,756,481	1,500,201
-	-	260,051	247,000
$ 5,858,188	$ 5,916,823	$ 11,226,521	$ 10,238,076

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

Analysis of Aging

Age of Accounts (by Date of Discharge)	2013 Amount	2013 Percent	2012 Amount	2012 Percent
1-30 Days (Includes Patients in Hospital)	$ 1,788,868	63.37 %	$ 1,830,729	61.60 %
31-60 Days	270,842	9.59	361,946	12.18
61-90 Days	200,443	7.10	138,121	4.65
91 Days and Over	562,589	19.94	641,003	21.57
Total Accounts Receivable	2,822,742	100.00 %	2,971,799	100.00 %
ALLOWANCES				
Contractual:				
Medicare	395,045		420,599	
Medicaid and Other	257,152		286,097	
Doubtful Accounts	509,356		500,458	
Net Accounts Receivable	$ 1,661,189		$ 1,764,645	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	$ 45,851		$ 43,123	
Days of Net Revenue in net Accounts Receivable at Year End	$ 36		$ 41	

Analysis of Allowance for Doubtful Accounts

	2013 Amount	2013 Percent of Net Patient Service Revenue	2012 Amount	2012 Percent of Net Patient Service Revenue
Beginning Balance	$ 500,458		$ 506,487	
Add:				
Provision for Doubtful Accounts	993,026	0.06 %	926,477	0.06 %
Recoveries Previously Written Off	223,919	0.01 %	224,203	0.01 %
	1,216,945		1,150,680	
Deduct:				
Accounts Written Off	(1,208,047)	(0.07)%	(1,156,709)	(0.07)%
Ending Balance	$ 509,356		$ 500,458	

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSES
JUNE 30, 2013 AND 2012

	2013	2012
INVENTORIES		
Medical / Surgical	$ 34,886	$ 34,834
Laboratory	88,577	95,299
Pharmacy	30,009	37,536
Total Inventories	$ 153,472	$ 167,669
PREPAID EXPENSES		
Insurance	$ 92,857	$ 84,010
Rent	4,200	4,200
Other	87,253	47,629
Total Prepaid Expenses	$ 184,310	$ 135,839

FRANKLIN GENERAL HOSPITAL
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2013 AND 2012

	2013	2012
ACUTE		
Admissions	205	180
Discharges	202	184
Average Length of Stay	4.02	3.48
Patient Days	812	640
Occupancy Percentage	8.90%	7.01%
Beds	25	25
SWING BED		
Admissions	108	96
Discharges	112	95
Average Length of Stay	11.24	12.57
Patient Days	1,259	1,194
NURSING FACILITY		
Admissions	26	29
Discharges	25	28
Patient Days	18,245	17,631
Occupancy Percentage	96.1%	92.9%
Beds	52	52

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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 statement of net position of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of and for the year ended June 30, 2013, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net position (Hospital), activities and changes in net assets (Foundation), and cash flows for the year then ended, and have issued our report thereon dated November 22, 2013. 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

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 financials will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control

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. Given these limitations. Given these limitations and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

Board of Trustees
Franklin General Hospital

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, 2013, 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.

Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 22, 2013

NONE IDENTIFIED

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 **Certified Budget** – Disbursements during the year ended June 30, 2013, did not exceed the amount budgeted.

II-B-13 **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-13 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-13 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

II-E-13 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-13 **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-13 **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.