

FRANKLIN GENERAL HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

**FRANKLIN GENERAL HOSPITAL
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YEARS ENDED JUNE 30, 2014 AND 2013**

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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	2018
John Trewin	Treasurer	2018
Linda Kuehner	Member	2018
April Hemmes	Member	2016
Nancy Showalter	Member	2016
Brenton Schwab	Member	2014

HOSPITAL OFFICIALS

Kim Price	Chief Executive Officer
Bonnie Lettow	Chief Financial Officer
Ronda Reimer	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), as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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 audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Franklin General Hospital and its discretely presented component unit as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the year then ended in conformity 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 36 and 37 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 38 through 45 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 14, 2014 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

Austin, Minnesota
November 14, 2014

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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, 2014, 2013, and 2012. 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, 2014, indicates total assets of \$30,318,873, total liabilities of \$7,132,821, and total net position of \$21,974,633. Net position increased \$1,323,229 or 6.4% from last fiscal year.
- The Hospital's net capital assets decreased \$1,409,812 or 6.7% to \$19,611,154.
- The Hospital's outstanding debt totaled \$5,536,523. This is a decrease of \$522,753 or 8.6% from last fiscal year.

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Financial Highlights (Continued)

- The Statements of Revenues, Expenses, and Changes in Net Position reflects total operating revenues of \$17,367,994, an increase of 2.5% from last fiscal year, and total operating expenses of \$17,525,629, an increase of 2.6% from last fiscal year. The resulting loss from operations is \$157,635, a \$15,407 increase from last fiscal year. A net non-operating gain of \$1,274,111 brings the excess of revenues over expenses to \$1,116,476, which is a 0.9% increase from last fiscal year.

Organization Highlights

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

- Developed a FY 15 Strategic Plan
- Expanded Women's Health Services
- Continued in the 340B and Beyond Program
- Recruited new Family Practice Physician
- Researched and purchased new EMR for Hospital and Clinic

Condensed Financial Statements

Table 1: Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current Assets	\$ 10,559,974	\$ 8,245,124	\$ 8,413,604
Noncurrent Cash and Investments	147,745	63,922	126,517
Capital Assets, Net	<u>19,611,154</u>	<u>21,020,966</u>	<u>21,355,577</u>
Total Assets	<u>\$ 30,318,873</u>	<u>\$ 29,330,012</u>	<u>\$ 29,895,698</u>
Liabilities:			
Total Current Liabilities	\$ 2,100,252	\$ 1,899,787	\$ 2,147,044
Long-Term Debt (Less Current Maturities)	5,013,770	5,536,523	7,059,276
Other Liabilities	<u>18,799</u>	<u>18,285</u>	<u>18,747</u>
Total Liabilities	7,132,821	7,454,595	9,225,067
Deferred Inflows of Resources	1,211,419	1,224,013	1,178,302
Net Position:			
Net Investment in Capital Assets	14,074,631	14,961,690	13,805,652
Unrestricted	<u>7,900,002</u>	<u>5,689,714</u>	<u>5,686,677</u>
Total Net Position	<u>21,974,633</u>	<u>20,651,404</u>	<u>19,492,329</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 30,318,873</u>	<u>\$ 29,330,012</u>	<u>\$ 29,895,698</u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Condensed Financial Statements (Continued)

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues			
Net Patient Service Revenue	\$ 16,536,338	\$ 16,735,644	\$ 15,739,839
Other Revenue	831,656	206,837	228,827
Total Operating Revenues	<u>17,367,994</u>	<u>16,942,481</u>	<u>15,968,666</u>
Expenses			
Salaries and Wages	5,835,762	5,858,188	5,916,823
Employee Benefits	1,647,346	1,566,477	1,535,769
Supplies and Miscellaneous	8,041,893	7,643,512	6,955,105
Depreciation	1,769,957	1,756,481	1,500,202
Interest	230,671	260,051	247,000
Total Expenses	<u>17,525,629</u>	<u>17,084,709</u>	<u>16,154,899</u>
Operating Loss	(157,635)	(142,228)	(186,233)
Nonoperating Income	<u>1,274,111</u>	<u>1,249,009</u>	<u>1,318,003</u>
Excess Of Revenues Over Expenses	1,116,476	1,106,781	1,131,770
Capital Contributions and Grants	250,076	85,550	142,998
Foundation Expenses	<u>(43,323)</u>	<u>(33,256)</u>	<u>(25,090)</u>
Change in Net Position	1,323,229	1,159,075	1,249,678
Net Position Beginning of Year	<u>20,651,404</u>	<u>19,492,329</u>	<u>18,242,651</u>
Net Position End of Year	<u>\$ 21,974,633</u>	<u>\$ 20,651,404</u>	<u>\$ 19,492,329</u>

Capital Assets

New construction and remodeling throughout the facility was finished during the 2013 fiscal year. At June 30, 2014, the Hospital had \$19,611,154 in net capital assets. This is a decrease of \$1,409,812 or 6.7% from last fiscal year, and is mostly due to current year depreciation.

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, 2014, the Hospital had \$5,536,523 in outstanding debt. This is a decrease of \$522,753 or 8.6% from last fiscal 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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**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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

LIABILITIES AND NET POSITION	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 522,753	\$ 522,753
Accounts Payable:		
Trade	186,299	135,470
Construction	146,807	108,008
Affiliated Organization	237,507	202,494
Accrued Expenses:		
Salaries and Wages	257,852	236,238
Vacation	476,112	482,505
Payroll Taxes and Other	108,827	115,704
Interest	18,542	20,027
Third-Party Payor Settlement Payable	<u>145,553</u>	<u>76,588</u>
Total Current Liabilities	<u>2,100,252</u>	<u>1,899,787</u>
LONG-TERM DEBT , Less Current Maturities	5,013,770	5,536,523
OTHER LIABILITIES		
Lease Deposit	17,500	17,500
Residents' Cash Fund	1,299	785
Total Other Liabilities	<u>18,799</u>	<u>18,285</u>
Total Liabilities	<u>7,132,821</u>	<u>7,454,595</u>
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	1,211,419	1,224,013
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	14,074,631	14,961,690
Unrestricted	<u>7,900,002</u>	<u>5,689,714</u>
Total Net Position	<u>21,974,633</u>	<u>20,651,404</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 30,318,873</u>	 <u>\$ 29,330,012</u>

**FRANKLIN GENERAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 111,948	\$ 319,992
Certificates of Deposit	195,000	195,000
Investment in Mutual Funds	520,040	375,692
Promises to Give, Current Portion	21,490	37,200
Interest Receivable	263	187
Total Current Assets	848,741	928,071
Beneficial Interest in Net Assets of Community Foundations	244,164	210,817
OTHER ASSETS		
Promises to Give, Less Current Portion	-	18,220
Total Assets	\$ 1,092,905	\$ 1,157,108
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Other Liabilities	\$ 10,988	\$ 1,710
Annuity Obligation	15,320	21,375
Total Current Liabilities	26,308	23,085
NET ASSETS		
Unrestricted	783,913	844,274
Temporarily Restricted	38,520	78,932
Permanently Restricted	244,164	210,817
Total Net Assets	1,066,597	1,134,023
Total Liabilities and Net Assets	\$ 1,092,905	\$ 1,157,108

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Net Patient Service Revenues, Net of Provision for Bad Debt of \$912,840 in 2014 and \$993,026 in 2013	\$ 16,536,338	\$ 16,735,644
Other Revenue	831,656	206,837
Total Revenues	17,367,994	16,942,481
EXPENSES		
Salaries and Wages	5,835,762	5,858,188
Employee Benefits	1,647,346	1,566,477
Supplies and Miscellaneous	8,041,893	7,643,512
Depreciation	1,769,957	1,756,481
Interest	230,671	260,051
Total Expenses	17,525,629	17,084,709
OPERATING LOSS	(157,635)	(142,228)
NONOPERATING INCOME (LOSS)		
Tax Revenue	1,225,216	1,179,517
Noncapital Grants and Contributions	32,602	24,061
Contributions Made	(20,000)	(20,000)
Investment Income	16,857	19,540
Loss on Disposal of Capital Assets	(51,856)	(25,991)
Gain from Franklin Prairie Apartments	64,945	63,975
Other Non-Operating	6,347	7,907
Nonoperating Income, Net	1,274,111	1,249,009
EXCESS OF REVENUES OVER EXPENSES	1,116,476	1,106,781
Capital Contributions and Grants	250,076	85,550
Transfers to Franklin General Hospital Foundation	(43,323)	(33,256)
INCREASE IN NET POSITION	1,323,229	1,159,075
Net Position, Beginning of Year	20,651,404	19,492,329
NET POSITION, END OF YEAR	\$ 21,974,633	\$ 20,651,404

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	\$ 56,918	\$ 40,451	\$ -	\$ 97,369
Reduction of Allowance	-	2,324	-	2,324
Investment Income	84,045	-	-	84,045
Net Assets Released from Restrictions	83,187	(83,187)	-	-
Total Revenues	<u>224,150</u>	<u>(40,412)</u>	<u>-</u>	<u>183,738</u>
EXPENSES				
Gifts to Franklin General Hospital	282,673	-	-	282,673
Professional Fees	5,993	-	-	5,993
Foundation Coordinator	36,968	-	-	36,968
Supplies and Other	2,200	-	-	2,200
Total Expenses	<u>327,834</u>	<u>-</u>	<u>-</u>	<u>327,834</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	(103,684)	(40,412)	-	(144,096)
Change in Beneficial Interest in Net Assets of Community Foundations	-	-	33,347	33,347
Transfer from Franklin General Hospital	<u>43,323</u>	<u>-</u>	<u>-</u>	<u>43,323</u>
INCREASE IN NET ASSETS	(60,361)	(40,412)	33,347	(67,426)
Net Assets, Beginning of Year	<u>844,274</u>	<u>78,932</u>	<u>210,817</u>	<u>1,134,023</u>
NET ASSETS, END OF YEAR	<u>\$ 783,913</u>	<u>\$ 38,520</u>	<u>\$ 244,164</u>	<u>\$ 1,066,597</u>

See accompanying Notes to Financial Statements.

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 260,599	\$ 8,911	\$ -	\$ 269,510
-	13,335	-	13,335
65,449	-	-	65,449
95,477	(95,477)	-	-
<u>421,525</u>	<u>(73,231)</u>	<u>-</u>	<u>348,294</u>
109,611	-	-	109,611
5,500	-	-	5,500
27,484	-	-	27,484
2,924	-	-	2,924
<u>145,519</u>	<u>-</u>	<u>-</u>	<u>145,519</u>
276,006	(73,231)	-	202,775
-	-	17,481	17,481
33,256	-	-	33,256
309,262	(73,231)	17,481	253,512
<u>535,012</u>	<u>152,163</u>	<u>193,336</u>	<u>880,511</u>
<u>\$ 844,274</u>	<u>\$ 78,932</u>	<u>\$ 210,817</u>	<u>\$ 1,134,023</u>

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 16,446,915	\$ 17,000,630
Cash Paid to Employees	(7,475,735)	(7,414,285)
Cash Paid to Suppliers	(8,012,240)	(7,683,300)
Other Receipts and Payments, Net	816,361	184,458
Net Cash Provided by Operating Activities	1,775,301	2,087,503
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	32,602	24,061
County Taxes	1,225,216	1,179,517
Transfer to Franklin General Hospital Foundation	(43,323)	(33,256)
Income from Franklin Prairie Apartments	188,131	63,975
Miscellaneous Non-Operating Revenue	(13,653)	(12,093)
Net Cash Provided by Non-Capital Financing Activities	1,388,973	1,222,204
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(511,088)	(1,811,938)
Proceeds from the Sale of Property and Equipment	2,200	2,800
Capital Grants and Contributions	250,076	85,550
Payments on Long-Term Debt	(522,753)	(1,490,649)
Interest Payments on Long-Term Debt	(230,671)	(260,051)
Net Cash Used by Capital and Related Financing Activities	(1,012,236)	(3,474,288)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and Maturities of Investments	-	1,000,000
Change in Assets Limited to Use	(83,823)	62,595
Interest Earned on Investments	16,857	19,540
Net Cash Provided (Used) by Investing Activities	(66,966)	1,082,135
INCREASE IN CASH AND CASH EQUIVALENTS	2,085,072	917,554
Cash and Cash Equivalents - Beginning	3,461,717	2,544,163
CASH AND CASH EQUIVALENTS - ENDING	\$ 5,546,789	\$ 3,461,717

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (157,635)	\$ (142,228)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	1,769,957	1,756,481
Interest Expense Considered Capital and Related Financing Activity	230,671	260,051
Provision for Bad Debt	912,840	993,026
Changes in Assets and Liabilities:		
Patient Receivables	(1,058,634)	(889,570)
Accounts Receivable - Other	(15,295)	(22,379)
Inventories	(5,634)	14,197
Prepaid Expenses	(50,555)	(48,471)
Accounts Payable	85,842	(5,514)
Accrued Expenses	7,373	10,380
Succeeding Year Property Tax Receivable	(12,594)	45,711
Third-Party Payor Settlements Receivable (Payable)	68,965	115,819
Net Cash Provided by Operating Activities	\$ 1,775,301	\$ 2,087,503

See accompanying Notes to Financial Statements.

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (67,426)	\$ 253,512
Adjustments to Reconcile Increase (Decrease) in Net Assets to		
Cash Provided (Used) by Operating Activities:		
Change in Unrealized Gains and Losses on Investments	(67,551)	(56,165)
Change in Beneficial Interest in Net Assets of Community Foundations	(33,347)	(17,481)
Changes in Assets and Liabilities:		
Promises to Give	33,930	55,904
Interest Receivable	(76)	39
Annuity Obligation	(6,055)	(50)
Other Liabilities	9,278	1,694
Net Cash Provided (Used) by Operating Activities	<u>(131,247)</u>	<u>237,453</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments - Mutual Funds	(76,797)	-
Sale of Investments	-	8,605
Net Cash Provided (Used) by Investing Activities	<u>(76,797)</u>	<u>8,605</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(208,044)	246,058
Cash and Cash Equivalents - Beginning	<u>319,992</u>	<u>73,934</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 111,948</u></u>	<u><u>\$ 319,992</u></u>

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

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:

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.

Basis of Presentation-Foundation

Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the Board of Directors has discretionary control.

Temporarily Restricted - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Corporation or passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources have permitted the Organization to use the income earned for unrestricted purposes.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Basis of Presentation-Foundation (Continued)

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions. Temporarily and permanently restricted net assets at June 30, 2014 and 2013, consist of the Foundation's interest in the net assets of other foundations.

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.

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, 2014 AND 2013**

**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.

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, 2014 and 2013, the allowance for uncollectible accounts was approximately \$451,800 and \$509,400.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

**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.

Beneficial Interest in Net Assets of Community Foundations

Interest in net assets of Community Foundations relates to contributions raised and held by the other foundations specifically for the benefit of the Foundation.

Capital Assets

Capital asset acquisitions equal to or greater than \$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, 2014 and 2013.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

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.

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 \$62,646 and \$47,650 for advertising costs for the years ended June 30, 2014 and 2013, respectively. The Foundation did not have any advertising costs for the years ended June 30, 2014 and 2013.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

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.

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for KRHC's fiscal year ending June 30, 2015. Management is evaluating the impact of adopting this statement but is not currently able to arrive at an estimate.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 \$21,487 and \$60,126 for the years ended June 30, 2014 and 2013, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2014 and 2013 were approximately \$13,900 and \$39,100, 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 \$7,687,813 and \$5,689,714 of unrestricted net position at June 30, 2014 and 2013, respectively, the Board of Trustees has designated \$146,446 and \$63,137, 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, 2012.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 NET PATIENT RESIDENT AND SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

Nursing Home

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

Other Payors

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

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

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Total Patient Service Revenue	\$ 26,396,388	\$ 25,396,528
Contractual Adjustments:		
Medicare	(5,689,053)	(5,098,106)
Medicaid	(603,653)	(313,490)
Provision for Bad Debt	(912,840)	(993,026)
Other	<u>(2,654,504)</u>	<u>(2,256,262)</u>
Total Contractual Adjustments and Bad Debts	<u>(9,860,050)</u>	<u>(8,660,884)</u>
Net Patient Service Revenues	<u>\$ 16,536,338</u>	<u>\$ 16,735,644</u>

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 $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 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, 2014 and 2013 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, 2014 and 2013, the Hospital's carrying amounts of cash and deposits are as follows:

	2014	2013
Checking and Savings Accounts	\$ 5,694,534	\$ 3,525,639
Certificates of Deposit	1,500,000	1,500,000
Total Deposits	\$ 7,194,534	\$ 5,025,639

Included in the following statement of net position captions:

	2014	2013
Cash and Cash Equivalents	\$ 5,546,789	\$ 3,461,717
Current Investments	1,500,000	1,500,000
Noncurrent Cash and Investments:		
Restricted by Resident Trust Agreement	1,299	785
Internally Designated for Capital Acquisition	146,446	63,137
	\$ 7,194,534	\$ 5,025,639

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 DEPOSITS AND INVESTMENTS (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 AND RESIDENT RECEIVABLES

Patient and resident receivables reported as current assets by the Hospital at June 30, 2014 and 2013 are the following:

	2014	2013
Receivable from Patients and Their Insurance Carriers	\$ 1,429,938	\$ 1,354,695
Receivable from Medicare	575,652	703,711
Receivable from Medicaid	253,205	112,139
Total Patient Receivables	2,258,795	2,170,545
Less Allowance for Doubtful Accounts	(451,812)	(509,356)
Patient Receivables, Net	\$ 1,806,983	\$ 1,661,189

NOTE 8 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

	June 30, 2013	Additions	(Retirements)	Transfers	June 30, 2014
Capital Assets					
Land and Land Improvements	\$ 1,376,523	\$ -	\$ -	\$ -	\$ 1,376,523
Building	13,591,285	-	-	16,806	13,608,091
Fixed Equipment	15,091,754	2,014	(8,032)	141,964	15,227,700
Major Movable Equipment	4,114,041	299,274	(61,972)	189,061	4,540,404
Construction in Progress	174,466	248,596	(63,510)	(347,831)	11,721
Totals	\$ 34,348,069	\$ 549,884	\$ (133,514)	\$ -	\$ 34,764,439
Accumulated Depreciation					
Land Improvements	\$ 450,268	\$ 90,869	\$ -	\$ -	\$ 541,137
Building	6,012,577	519,855	-	-	6,532,432
Fixed Equipment	3,966,541	862,433	(5,845)	-	4,823,129
Major Movable Equipment	2,897,717	419,983	(61,113)	-	3,256,587
Totals	\$ 13,327,103	\$ 1,893,140	\$ (66,958)	\$ -	\$ 15,153,285
	\$ 21,020,966				\$ 19,611,154

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 CAPITAL ASSETS (CONTINUED)

	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
	<u>\$ 21,355,577</u>				<u>\$ 21,020,966</u>

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.

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 discounted 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:

	2014	2013
Less Than One Year	\$ 23,167	\$ 37,200
One to Five Years	-	23,502
	<u>23,167</u>	<u>60,702</u>
Less Unamortized Discount	(546)	(2,365)
Less Allowance for Uncollectible Promises to Give	(1,131)	(2,917)
	<u>\$ 21,490</u>	<u>\$ 55,420</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2014 and 2013 is as follows:

	Balance July 1, 2013	Additions	(Payments)	Balance June 30, 2014	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 285,000	\$ -	\$ (45,000)	\$ 240,000	\$ 45,000
Promissory Note, FREC	578,125	-	(92,500)	485,625	92,500
Promissory Note, MFP Project	5,196,151	-	(385,253)	4,810,898	385,253
Total Long-Term Debt	<u>\$ 6,059,276</u>	<u>\$ -</u>	<u>\$ (522,753)</u>	<u>\$ 5,536,523</u>	<u>\$ 522,753</u>

	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	<u>\$ 7,549,925</u>	<u>\$ -</u>	<u>\$ (1,490,649)</u>	<u>\$ 6,059,276</u>	<u>\$ 522,753</u>

Years Ending June 30,	Long-Term Debt	
	Principal	Interest
2015	\$ 522,753	\$ 214,337
2016	522,753	196,520
2017	522,753	178,702
2018	522,753	160,884
2019	522,753	143,066
2020-2024	1,964,389	448,059
2025-2028	958,369	56,986
	<u>\$ 5,536,523</u>	<u>\$ 1,398,554</u>

Promissory Note, UBT

The Hospital issued a 4.625% promissory note payable in the amount of \$2,558,133 to United Bank and Trust (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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 LONG-TERM DEBT (CONTINUED)

Promissory Note, UBT (Continued)

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.

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 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets reflected by the Foundation are related to the provision of health care services and minor projects in the amounts of \$38,520 and \$78,932 at June 30, 2014 and 2013, respectively. Net assets were released from restrictions in satisfaction of donor restrictions in the amounts of \$83,187 and \$95,477 for the years ended June 30, 2014 and 2013, respectively.

Permanently restricted net assets reflected by the Foundation consist of amounts raised and held by unrelated foundations in the amounts of \$244,164 and \$210,817 at June 30, 2014 and 2013. The funds are to be held in perpetuity with the interest available for expenditures by the Hospital for health care services. The beneficial interest in the community foundations are discussed further at Note 14.

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, 2014 and 2013 was \$212,000 and \$213,000, respectively.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 12 LEASES (CONTINUED)

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

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

NOTE 13 FUNCTIONAL EXPENSES

Program and general expenses of the Foundation for the years ended June 30, 2014 and 2013 are as follows.

	2014	2013
Program	\$ 282,673	\$ 109,611
Management and General	45,161	35,908
Total	\$ 327,834	\$ 145,519

NOTE 14 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, 2014 and 2013 was \$15,230 and \$21,375, respectively.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 14 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 \$10,443 and \$2,127 at June 30, 2014 and 2013, respectively.

NOTE 15 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 5.95% of their annual covered salary, and the Hospital is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$510,436, \$492,751, and \$455,095, respectively, equal to the required contributions for each year.

NOTE 16 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 16 FAIR VALUE MEASUREMENTS(CONTINUED)

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2014 and 2013, respectively:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2014			
Assets			
Investments in Mutual Funds	\$ 520,040	\$ -	\$ -
Beneficial Interest in Net Assets of Community Foundations	<u>-</u>	<u>-</u>	<u>244,164</u>
	<u>\$ 520,040</u>	<u>\$ -</u>	<u>\$ 244,164</u>
Liabilities			
Annuity Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,320</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2013			
Assets			
Investments in Mutual Funds	\$ 375,692	\$ -	\$ -
Beneficial Interest in Net Assets of Community Foundations	<u>-</u>	<u>-</u>	<u>210,817</u>
	<u>\$ 375,692</u>	<u>\$ -</u>	<u>\$ 210,817</u>
Liabilities			
Annuity Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,375</u>

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 June 30, 2014 and 2013, were classified as follows in the Statement of Activities and Changes in Net Position:

	<u>2014</u>	<u>2013</u>
Annuity Payable		
Balance, Beginning of Year	\$ 21,375	\$ 21,425
Payments Made to Annuitant	(7,382)	(7,382)
Increase Due to Change in Estimated Life Expectancy	1,327	7,332
Balance, End of Year	<u>\$ 15,320</u>	<u>\$ 21,375</u>
Beneficial Interest in Net Assets of Community Foundations		
Balance, Beginning of Year	\$ 210,817	\$ 193,336
Investment Income	32,920	24,037
Contributions Received	9,001	-
Grants Paid	(8,000)	(9,014)
Other Activity	(574)	2,458
Balance, End of Year	<u>\$ 244,164</u>	<u>\$ 210,817</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 17 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 \$2,251,827 and \$2,646,700 for the years ended June 30, 2014 and 2013, respectively.

Master Affiliation Agreement

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, 2014 and 2013.

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 \$657,090 and \$618,175 for the years ended June 30, 2014 and 2013, respectively.

Due to Affiliated Organization

As of June 30, 2014 and 2013, the Hospital's records reflect a due to MHN of \$237,507 and \$202,494, 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
2015	\$ 204,000
2016	51,000

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 18 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 19 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 20 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, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	35%	40%
Medicaid	12%	5%
Commercial Insurance	26%	22%
Other Third-Party Payors, Patients, and Residents	27%	33%
	<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 POSITION – BUDGET AND ACTUAL (CASH BASIS)
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2014**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,225,216	\$ -	\$ 1,225,216	\$ 1,190,910	\$ 34,306
Estimated Other Revenues/Receipts	17,666,965	72,524	17,739,489	18,549,344	(809,855)
	18,892,181	72,524	18,964,705	19,740,254	(775,549)
Expenses/Disbursements	17,568,952	(689,319)	16,879,633	18,482,086	(1,602,453)
Net	1,323,229	761,843	2,085,072	1,258,168	826,904
Balance, Beginning of Year	20,651,404	(17,189,687)	3,461,717	4,177,341	(715,624)
Balance, End of Year	<u>\$ 21,974,633</u>	<u>\$ (16,427,844)</u>	<u>\$ 5,546,789</u>	<u>\$ 5,435,509</u>	<u>\$ 111,280</u>

**FRANKLIN GENERAL HOSPITAL
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014**

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, 2014.

For the year ended June 30, 2014, the Hospital's expenditures did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,055,115	\$ 1,837,496
 OTHER PROFESSIONAL SERVICES		
Operating Room	730,656	763,918
Anesthesiology	642,373	435,433
Radiology	4,273,538	3,869,158
Laboratory	4,088,242	3,800,821
Respiratory Therapy	511,736	477,079
Physical Therapy	1,934,885	2,021,473
Occupational Therapy	180,218	200,045
Speech Therapy	25,180	39,634
Electrocardiology	203,690	159,399
Medical and Surgical Supplies	771,237	912,042
Pharmacy	1,442,422	1,237,400
Wound Therapy	13,989	13,746
Cardiac Rehab	158,286	135,073
Infusion Therapy	271,245	317,560
Nursing Facility	2,823,918	2,885,598
Clinics	3,630,340	4,297,270
Emergency Room	1,640,405	1,140,887
Ambulance	1,020,400	912,622
Total Gross Patient Service Revenues	26,417,875	25,456,654
 Less Charity Care	(21,487)	(60,126)
 Total Patient Service Revenues	\$ 26,396,388	\$ 25,396,528
 CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (5,689,053)	\$ (5,098,106)
Medicaid	(603,653)	(313,490)
Other	(2,654,504)	(2,256,262)
Provision for Bad Debts	(912,840)	(993,026)
Total Deductions	(9,860,050)	(8,660,884)
 Net Patient Service Revenues	\$ 16,536,338	\$ 16,735,644

INPATIENT		OUTPATIENT	
2014	2013	2014	2013
\$ 1,705,144	\$ 1,569,040	\$ 349,971	\$ 268,456
5,649	12,838	725,007	751,080
6,562	6,220	635,811	429,213
146,510	149,998	4,127,028	3,719,160
292,703	268,059	3,795,539	3,532,762
207,575	205,357	304,161	271,722
342,756	305,435	1,592,129	1,716,038
107,867	109,869	72,351	90,176
4,332	16,524	20,848	23,110
6,472	8,170	197,218	151,229
304,908	351,965	466,329	560,077
558,337	478,070	884,085	759,330
1,308	1,730	12,681	12,016
-	-	158,286	135,073
9,325	13,730	261,920	303,830
2,823,918	2,885,598	-	-
-	-	3,630,340	4,297,270
57,684	24,102	1,582,721	1,116,785
56,751	45,444	963,649	867,178
<u>\$ 6,637,801</u>	<u>\$ 6,452,149</u>	<u>\$ 19,780,074</u>	<u>\$ 19,004,505</u>

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**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT AND RESIDENT
SERVICE REVENUES AND OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 5,689,053	\$ 5,098,106
Contractual Adjustments - Medicaid	603,653	313,490
Provision for Bad Debt	912,840	993,026
Other Allowances and Adjustments	2,654,504	2,256,262
Total Adjustments	\$ 9,860,050	\$ 8,660,884
OTHER REVENUES		
Clinic Rent Income	\$ 51,446	\$ 51,609
Pharmacy Rent	14,514	14,214
Dietary	55,326	42,604
Grant Revenue	25,185	35,712
Retail Pharmacy	625,116	3,098
Medical Record Transcripts	774	1,297
Miscellaneous	59,295	58,303
Total Other Revenues	\$ 831,656	\$ 206,837

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
Employee Benefits	\$ 1,647,346	\$ 1,566,477
Administrative and General	1,975,953	1,919,420
Marketing	42,600	41,979
Operation of Plant	265,893	237,141
Repairs and Maintenance	296,644	259,169
Laundry and Linen	119,788	141,631
Housekeeping	209,500	204,476
Dietary	509,152	493,106
Central Sterile	50,154	35,004
Adults and Pediatrics	1,090,519	1,063,538
Nursing Administration	54,259	36,662
Purchasing	62,841	51,888
Medical Records	128,608	138,386
Social Services	52,153	50,376
Medical and Surgical	32,237	25,906
Nursing Facility	1,239,783	1,216,252
Operating Room	300,437	320,753
Anesthesiology	162,645	136,731
Radiology	925,817	878,492
Laboratory	609,197	620,071
Respiratory Therapy	46,755	34,734
Physical Therapy	752,791	752,102
Occupational Therapy	69,818	77,832
Speech Therapy	10,171	15,061
Wound Therapy	4,733	6,034
Electrocardiology	12,514	14,328
Central Supply	71,717	93,991
Pharmacy	689,582	484,231
Cardiac Rehab	55,775	46,358
Infusion Therapy	15,995	17,508
Clinics	2,522,117	3,173,871
Emergency Room	1,231,662	626,605
Ambulance	247,196	271,136
Patient Education	14,207	16,723
Community Education	4,442	205
Depreciation	1,769,957	1,756,481
Interest	230,671	260,051
TOTAL	<u>\$ 17,525,629</u>	<u>\$ 17,084,709</u>

SALARIES		OTHER	
2014	2013	2014	2013
\$ -	\$ -	\$ 1,647,346	\$ 1,566,477
575,604	532,957	1,400,349	1,386,463
-	5,528	42,600	36,451
-	-	265,893	237,141
146,242	140,005	150,402	119,164
11,599	12,096	108,189	129,535
178,081	170,917	31,419	33,559
291,765	268,682	217,387	224,424
28,110	23,897	22,044	11,107
918,652	923,877	171,867	139,661
38,505	28,343	15,754	8,319
61,050	50,521	1,791	1,367
74,676	81,551	53,932	56,835
50,352	50,221	1,801	155
-	-	32,237	25,906
1,019,481	978,207	220,302	238,045
184,542	216,333	115,895	104,420
-	-	162,645	136,731
225,141	218,474	700,676	660,018
294,970	280,863	314,227	339,208
4,900	7,161	41,855	27,573
-	58,116	752,791	693,986
-	-	69,818	77,832
-	-	10,171	15,061
-	-	4,733	6,034
5,505	8,580	7,009	5,748
-	-	71,717	93,991
-	-	689,582	484,231
44,689	39,700	11,086	6,658
13,985	11,494	2,010	6,014
1,234,612	1,352,976	1,287,505	1,820,895
210,891	177,901	1,020,771	448,704
206,678	203,527	40,518	67,609
12,979	16,058	1,228	665
2,753	203	1,689	2
-	-	1,769,957	1,756,481
-	-	230,671	260,051
<u>\$ 5,835,762</u>	<u>\$ 5,858,188</u>	<u>\$ 11,689,867</u>	<u>\$ 11,226,521</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2014 AND 2013**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2014		2013	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital)	\$ 2,167,146	68.17 %	\$ 1,788,868	63.37 %
31-60 Days	326,776	10.28	270,842	9.59
61-90 Days	197,477	6.21	200,443	7.10
91 Days and Over	487,421	15.34	562,589	19.94
Total Accounts Receivable	<u>3,178,820</u>	<u>100.00 %</u>	<u>2,822,742</u>	<u>100.00 %</u>
Less: Allowance for Doubtful Accounts	451,812		509,356	
Allowance for Contractual Adjustments	<u>920,025</u>		<u>652,197</u>	
Net Accounts Receivable	<u>\$ 1,806,983</u>		<u>\$ 1,661,189</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 45,305</u>		<u>\$ 45,851</u>	
Days of Net Revenue in Net Accounts Receivable at Year End	<u>\$ 40</u>		<u>\$ 36</u>	

Analysis of Allowance for Doubtful Accounts

	2014		2013	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 509,356		\$ 500,458	
Add:				
Provision for Doubtful Accounts	912,840	0.06 %	993,026	0.06 %
Recoveries Previously Written Off	<u>301,014</u>	0.02 %	<u>223,919</u>	0.01 %
	1,213,854		1,216,945	
Deduct:				
Accounts Written Off	<u>(1,271,398)</u>	(0.08)%	<u>(1,208,047)</u>	(0.07)%
Ending Balance	<u>\$ 451,812</u>		<u>\$ 509,356</u>	

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSES
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
INVENTORIES		
Medical / Surgical	\$ 38,327	\$ 34,886
Laboratory	91,622	88,577
Pharmacy	<u>29,157</u>	<u>30,009</u>
Total Inventories	<u><u>\$ 159,106</u></u>	<u><u>\$ 153,472</u></u>
PREPAID EXPENSES		
Insurance	\$ 142,857	\$ 92,857
Rent	4,200	4,200
Other	<u>100,308</u>	<u>87,253</u>
Total Prepaid Expenses	<u><u>\$ 247,365</u></u>	<u><u>\$ 184,310</u></u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ACUTE		
Admissions	196	205
Discharges	197	202
Average Length of Stay	3.98	4.02
Patient Days	784	812
Occupancy Percentage	8.59%	8.90%
Beds	25	25
SWING BED		
Admissions	116	108
Discharges	113	112
Average Length of Stay	12.08	11.24
Patient Days	1,365	1,259
NURSING FACILITY		
Admissions	30	26
Discharges	35	25
Patient Days	17,544	18,245
Occupancy Percentage	92.4%	96.1%
Beds	52	52



**INDEPENDENT AUDITORS' 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, 2014, 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 14, 2014. 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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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, 2014, 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.

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

Austin, Minnesota
November 14, 2014

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

NONE IDENTIFIED

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 **Certified Budget** – Disbursements during the year ended June 30, 2014, did not exceed the amount budgeted.
- II-B-14 **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-14 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-14 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-14 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-14 **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-14 **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.

