

FRANKLIN GENERAL HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

**FRANKLIN GENERAL HOSPITAL
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YEARS ENDED JUNE 30, 2015 AND 2014**

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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>
John Trewin	Chairperson	2018
Jan Siems	Secretary	2018
Nancy Showalter	Treasurer	2016
Linda Kuehner	Member	2018
Steve Abbas	Member	2020
Brenton Schwab	Member	2020
April Hemmes	Member	2016

HOSPITAL OFFICIALS

Kim Price	Chief Executive Officer
Deb Rosburg	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), which comprise the statements of net position and statements of financial position, respectively, as of June 30, 2015 and 2014 and the related statements of revenues, expenses, and changes in net position, activities and changes in net assets, 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 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, 2015 and 2014 the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

During fiscal year ended June 30, 2015, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. As a result of the implementation of these standards Franklin General Hospital reported a restatement for the change in accounting principle (See Note 21). Our auditors' opinion was not modified with respect to the restatement.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 – 9, Budgetary Comparison, Schedule of the Hospital's Proportionate Share of the Net Pension Liability, and Schedule of Hospital Contributions on pages 45 and 50 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 51 through 58 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.

The table of the board of trustees and hospital officials and the schedules of comparative statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Board of Trustees
Franklin General Hospital

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 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
December 7, 2015

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**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

This discussion and analysis of the financial performance of Franklin General Hospital (Hospital) Franklin General Hospital Foundation (the Foundation) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2015, 2014, and 2013. 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, as well as the Statements of Financial Position, Statements of Activities and Changes in Net Assets and Statements of Cash Flows for the Foundation. 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, deferred outflows of resources, liabilities and deferred inflows, 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, deferred outflows of resources, liabilities and deferred inflows of resources - 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.

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Financial Highlights (Continued)

- The Statement of Net Position at June 30, 2015 and 2014, indicates total assets and deferred outflows of resources of \$33,551,625, total liabilities and deferred inflows of resources of \$14,402,492, and total net position of \$19,149,133. Net position decreased \$4,222,306 or 19.2% from last fiscal year due to the restatement as discussed in Note 21. Net position increased \$1,396,806 or 7.9% from the Hospital's activities during 2015.
- The Hospital's net capital assets increased \$1,863,576 or 9.50% to \$21,474,730.
- The Hospital's outstanding debt totaled \$6,024,261. This is an increase of \$487,738 or 8.8% from last fiscal year.
- The Statements of Revenues, Expenses, and Changes in Net Position reflects total operating revenues of \$17,853,543, an increase of 2.8% from last fiscal year, and total operating expenses of \$17,777,713, an increase of 1.4% from last fiscal year. The resulting gain from operations is \$75,830, an improvement of \$233,465 from last fiscal year. A net non-operating gain of \$1,333,571 brings the excess of revenues over expenses to \$1,409,401, which is a 26.2% 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

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Condensed Financial Statements (Continued)

Table 1: Statements of Net Position

	<u>2015</u>	<u>2014 (Not Restated)</u>	<u>2013 (Not Restated)</u>
Assets:			
Current Assets	\$ 10,658,324	\$ 10,559,974	\$ 8,245,124
Noncurrent Cash and Investments	210,337	147,745	63,922
Capital Assets, Net	<u>21,474,730</u>	<u>19,611,154</u>	<u>21,020,966</u>
Total Assets	<u>32,343,391</u>	<u>30,318,873</u>	<u>29,330,012</u>
Deferred Outflows of Resources:			
Pension Related Deferred Outflows	<u>1,208,234</u>	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 33,551,625</u>	<u>\$ 30,318,873</u>	<u>\$ 29,330,012</u>
Liabilities:			
Total Current Liabilities	\$ 2,699,206	\$ 2,100,252	\$ 1,899,787
Net Pension Liability	3,234,795	-	-
Long-Term Debt (Less Current Maturities)	5,302,385	5,013,770	5,536,523
Other Liabilities	<u>21,726</u>	<u>18,799</u>	<u>18,285</u>
Total Liabilities	11,258,112	7,132,821	7,454,595
Deferred Inflows of Resources			
Succeeding Year Property Tax Receivable	1,235,255	1,211,419	1,224,013
Pension Related Deferred Inflows	<u>1,909,125</u>	-	-
Total Deferred Inflows of Resources	3,144,380	1,211,419	1,224,013
Net Position:			
Net Investment in Capital Assets	15,450,469	14,074,631	14,961,690
Unrestricted	<u>3,698,664</u>	<u>7,900,002</u>	<u>5,689,714</u>
Total Net Position	<u>19,149,133</u>	<u>21,974,633</u>	<u>20,651,404</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 33,551,625</u>	<u>\$ 30,318,873</u>	<u>\$ 29,330,012</u>

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Condensed Financial Statements (Continued)

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

	<u>2015</u>	<u>2014 (Not Restated)</u>	<u>2013 (Not Restated)</u>
Operating Revenues			
Net Patient Service Revenue	\$ 17,063,890	\$ 16,536,338	\$ 16,735,644
Other Revenue	789,653	831,656	206,837
Total Operating Revenues	<u>17,853,543</u>	<u>17,367,994</u>	<u>16,942,481</u>
Expenses			
Salaries and Wages	5,707,550	5,835,762	5,858,188
Employee Benefits	1,462,724	1,647,346	1,566,477
Supplies and Miscellaneous	8,485,473	8,041,893	7,643,512
Depreciation	1,919,418	1,769,957	1,756,481
Interest	202,548	230,671	260,051
Total Expenses	<u>17,777,713</u>	<u>17,525,629</u>	<u>17,084,709</u>
Operating Income (Loss)	75,830	(157,635)	(142,228)
Nonoperating Income	<u>1,333,571</u>	<u>1,274,111</u>	<u>1,249,009</u>
Excess Of Revenues Over Expenses	1,409,401	1,116,476	1,106,781
Capital Contributions and Grants	31,443	250,076	85,550
Foundation Expenses	<u>(44,038)</u>	<u>(43,323)</u>	<u>(33,256)</u>
Change in Net Position	1,396,806	1,323,229	1,159,075
Net Position Beginning of Year as Restated	<u>17,752,327</u>	<u>20,651,404</u>	<u>19,492,329</u>
Net Position End of Year	<u>\$ 19,149,133</u>	<u>\$ 21,974,633</u>	<u>\$ 20,651,404</u>

Capital Assets

New construction costs related to the implementation of electronic health records caused a large increase in capital assets. At June 30, 2015 and 2014, the Hospital had \$21,474,730 in net capital assets. This is an increase of \$1,863,576 or 7.07% from last fiscal year.

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, 2015 and 2014, the Hospital had \$6,024,261 in outstanding debt. This is an increase of \$487,738 or 8.8% 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.

**FRANKLIN GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Summary (Continued)

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.

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 Deb Rosburg, 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, 2015 AND 2014**

	2015	2014 (Not Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,490,023	\$ 5,546,789
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$435,110 in 2015 and \$451,812 in 2014	1,913,087	1,806,983
Succeeding Year Property Tax Receivable	1,235,255	1,211,419
Current Investments	1,501,835	1,500,000
Other Receivables	78,534	88,312
Inventories	139,206	159,106
Prepaid Expenses	300,384	247,365
Total Current Assets	10,658,324	10,559,974
 NONCURRENT CASH AND INVESTMENTS		
Restricted by Resident Trust Agreement	926	1,299
Internally Designated for Capital Acquisition	209,411	146,446
Total Noncurrent Cash and Investments	210,337	147,745
 CAPITAL ASSETS, NET		
	21,474,730	19,611,154
 Total Assets		
	32,343,391	30,318,873
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	1,208,234	-
 Total Assets and Deferred Outflows of Resources		
	\$ 33,551,625	\$ 30,318,873

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>2015</u>	<u>2014 (Not Restated)</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 721,876	\$ 522,753
Accounts Payable:		
Trade	374,085	186,299
Construction	210,481	146,807
Affiliated Organization	225,524	237,507
Accrued Expenses:		
Salaries and Wages	279,918	257,852
Vacation	502,465	476,112
Payroll Taxes and Other	111,160	108,827
Interest	17,601	18,542
Third-Party Payer Settlement Payable	256,096	145,553
Total Current Liabilities	<u>2,699,206</u>	<u>2,100,252</u>
NET PENSION LIABILITY	3,234,795	-
LONG-TERM DEBT	5,302,385	5,013,770
OTHER LIABILITIES		
Lease Deposit	20,800	17,500
Residents' Cash Fund	926	1,299
Total Other Liabilities	<u>21,726</u>	<u>18,799</u>
 Total Liabilities	 11,258,112	 7,132,821
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	1,235,255	1,211,419
Pension Related Deferred Inflows	1,909,125	-
Total Deferred Inflows of Resources	<u>3,144,380</u>	<u>1,211,419</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	15,450,469	14,074,631
Unrestricted	3,698,664	7,900,002
Total Net Position	<u>19,149,133</u>	<u>21,974,633</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u><u>\$ 33,551,625</u></u>	 <u><u>\$ 30,318,873</u></u>

FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 185,129	\$ 111,948
Certificates of Deposit	195,000	195,000
Investment in Mutual Funds	517,370	520,040
Promises to Give	4,773	21,490
Interest Receivable	412	263
Total Current Assets	902,684	848,741
Beneficial Interest in Net Assets of Community Foundations	241,660	244,164
Total Assets	\$ 1,144,344	\$ 1,092,905
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Other Liabilities	\$ 958	\$ 10,988
Annuity Obligation	20,000	15,320
Total Current Liabilities	20,958	26,308
NET ASSETS		
Unrestricted	833,647	783,913
Temporarily Restricted	48,079	38,520
Permanently Restricted	241,660	244,164
Total Net Assets	1,123,386	1,066,597
Total Liabilities and Net Assets	\$ 1,144,344	\$ 1,092,905

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
OPERATING REVENUES		
Net Patient Service Revenues, Net of Provision for Bad Debt of \$744,303 in 2015 and \$912,840 in 2014	\$ 17,063,890	\$ 16,536,338
Other Revenue	789,653	831,656
Total Revenues	17,853,543	17,367,994
EXPENSES		
Salaries and Wages	5,707,550	5,835,762
Employee Benefits	1,462,724	1,647,346
Supplies and Miscellaneous	8,485,473	8,041,893
Depreciation	1,919,418	1,769,957
Interest	202,548	230,671
Total Expenses	17,777,713	17,525,629
OPERATING INCOME (LOSS)	75,830	(157,635)
NONOPERATING INCOME (LOSS)		
Tax Revenue	1,211,419	1,225,216
Noncapital Grants and Contributions	-	32,602
Contributions Made	-	(20,000)
Investment Income	20,715	16,857
Gain (Loss) on Disposal of Capital Assets	21,500	(51,856)
Gain from Franklin Prairie Apartments	79,735	64,945
Other Non-Operating	202	6,347
Nonoperating Income, Net	1,333,571	1,274,111
EXCESS OF REVENUES OVER EXPENSES	1,409,401	1,116,476
Capital Contributions and Grants	31,443	250,076
Transfers to Franklin General Hospital Foundation	(44,038)	(43,323)
INCREASE IN NET POSITION	1,396,806	1,323,229
Net Position - Beginning of Year, as Restated	17,752,327	20,651,404
NET POSITION - END OF YEAR	\$ 19,149,133	\$ 21,974,633

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions	\$ 56,666	\$ 33,109	\$ -	\$ 89,775
Reduction of Allowance	-	1,450	-	1,450
Investment Income	20,145	-	-	20,145
Net Assets Released from Restrictions	25,000	(25,000)	-	-
Total Revenues	<u>101,811</u>	<u>9,559</u>	<u>-</u>	<u>111,370</u>
EXPENSES				
Gifts to Franklin General Hospital	38,450	-	-	38,450
Professional Fees	5,500	-	-	5,500
Foundation Coordinator	38,326	-	-	38,326
Supplies and Other	13,839	-	-	13,839
Total Expenses	<u>96,115</u>	<u>-</u>	<u>-</u>	<u>96,115</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	5,696	9,559	-	15,255
Change in Beneficial Interest in Net Assets of Community Foundations	-	-	(2,504)	(2,504)
Transfer from Franklin General Hospital	44,038	-	-	44,038
INCREASE (DECREASE) IN NET ASSETS	49,734	9,559	(2,504)	56,789
Net Assets - Beginning of Year	<u>783,913</u>	<u>38,520</u>	<u>244,164</u>	<u>1,066,597</u>
NET ASSETS - END OF YEAR	<u>\$ 833,647</u>	<u>\$ 48,079</u>	<u>\$ 241,660</u>	<u>\$ 1,123,386</u>

See accompanying Notes to Financial Statements.

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 56,918	\$ 40,451	\$ -	\$ 97,369
-	2,324	-	2,324
84,045	-	-	84,045
<u>83,187</u>	<u>(83,187)</u>	<u>-</u>	<u>-</u>
224,150	(40,412)	-	183,738
282,673	-	-	282,673
5,993	-	-	5,993
36,968	-	-	36,968
2,200	-	-	2,200
<u>327,834</u>	<u>-</u>	<u>-</u>	<u>327,834</u>
(103,684)	(40,412)	-	(144,096)
-	-	33,347	33,347
<u>43,323</u>	<u>-</u>	<u>-</u>	<u>43,323</u>
(60,361)	(40,412)	33,347	(67,426)
<u>844,274</u>	<u>78,932</u>	<u>210,817</u>	<u>1,134,023</u>
<u>\$ 783,913</u>	<u>\$ 38,520</u>	<u>\$ 244,164</u>	<u>\$ 1,066,597</u>

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u> (Not Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 17,092,165	\$ 16,446,915
Cash Paid to Employees	(7,117,536)	(7,475,735)
Cash Paid to Suppliers	(8,342,789)	(8,012,240)
Other Receipts and Payments, Net	488,975	816,361
Net Cash Provided by Operating Activities	<u>2,120,815</u>	<u>1,775,301</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	-	32,602
County Taxes	1,211,419	1,225,216
Transfer to Franklin General Hospital Foundation	(44,038)	(43,323)
Income from Franklin Prairie Apartments	182,395	188,131
Miscellaneous Non-Operating Revenue	202	(13,653)
Net Cash Provided by Non-Capital Financing Activities	<u>1,349,978</u>	<u>1,388,973</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(2,736,557)	(511,088)
Proceeds from the Sale of Property and Equipment	21,500	2,200
Capital Grants and Contributions	31,443	250,076
Payments on Long-Term Debt	(599,520)	(522,753)
Interest Payments on Long-Term Debt	(202,548)	(230,671)
Net Cash Used by Capital and Related Financing Activities	<u>(3,485,682)</u>	<u>(1,012,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Assets Limited to Use	(62,592)	(83,823)
Interest Earned on Investments	20,715	16,857
Net Cash Used by Investing Activities	<u>(41,877)</u>	<u>(66,966)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(56,766)	2,085,072
Cash and Cash Equivalents - Beginning of Year	<u>5,546,789</u>	<u>3,461,717</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 5,490,023</u></u>	<u><u>\$ 5,546,789</u></u>

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 75,830	\$ (157,635)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	1,919,418	1,769,957
Interest Expense Considered Capital and Related Financing Activity	202,548	230,671
Provision for Bad Debt	744,303	912,840
Changes in Assets and Liabilities:		
Patient Receivables	(850,407)	(1,058,634)
Accounts Receivable - Other	(14,058)	(15,295)
Inventories	19,900	(5,634)
Prepaid Expenses	(53,019)	(50,555)
Accounts Payable	175,803	85,842
Accrued Expenses	52,738	7,373
Succeeding Year Property Tax Receivable	23,836	(12,594)
Third-Party Payer Settlements Payable	110,543	68,965
Pension Liability	(286,620)	-
Net Cash Provided by Operating Activities	\$ 2,120,815	\$ 1,775,301
NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Equipment Acquired Under Capital Lease Obligations	\$ 1,087,258	\$ -

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 56,789	\$ (67,426)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Cash Provided (Used) by Operating Activities:		
Change in Unrealized Gains and Losses on Investments	2,670	(67,551)
Change in Beneficial Interest in Net Assets of Community Foundations	2,504	(33,347)
Changes in Assets and Liabilities:		
Promises to Give	16,717	33,930
Interest Receivable	(149)	(76)
Annuity Obligation	4,680	(6,055)
Other Liabilities	(10,030)	9,278
Net Cash Provided (Used) by Operating Activities	73,181	(131,247)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments - Mutual Funds	-	(76,797)
Sale of Investments	(102,500)	-
Purchases of Certificates of Deposit	102,500	-
Net Cash Provided (Used) by Investing Activities	-	(76,797)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,181	(208,044)
Cash and Cash Equivalents - Beginning of Year	111,948	319,992
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 185,129	\$ 111,948

See accompanying Notes to Financial Statements.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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, 2015 AND 2014**

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

Basis of Presentation

The Statements of Net Position display the Hospital's assets, deferred outflows of resources, liabilities and deferred inflows, 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, 2015 AND 2014**

**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. Permanently restricted net assets at June 30, 2015 and 2014, consist of the Foundation's interest in the net assets of other foundations. Temporarily restricted net assets at June 30 2015 and 2014 consist of gifts given for a specific purpose.

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, deferred outflows of resources, liabilities and deferred inflows and disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

**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 payer 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 payers. Management reviews patient and resident receivables by payer 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, 2015 and 2014, the allowance for uncollectible accounts was approximately \$435,100 and \$451,800.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted under resident trust agreement and assets which have been internally designated by the Hospital's Board of Trustees. Board designated assets remain under the control of the Board of Trustees which may, at its discretion, later use for other purposes.

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

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, 2015 and 2014.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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

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 consist of succeeding year property tax receivable and pension related deferred inflows.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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, grant, 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 payers 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$63,558 and \$62,646 for advertising costs for the years ended June 30, 2015 and 2014, respectively.

The Foundation did not have any advertising costs for the years ended June 30, 2015 and 2014.

Charity Care

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

County Tax Revenues

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

Fair Value Measurements

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

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

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

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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

Electronic Health Record Incentive Payments

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

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 \$29,019 and \$21,487 for the years ended June 30, 2015 and 2014, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2015 and 2014 were approximately \$25,838 and \$20,794, 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 \$3,698,664 and \$7,900,002 of unrestricted net position at June 30, 2015 and 2014, respectively, the Board of Trustees has designated \$209,411 and \$146,446, 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 payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 4 NET PATIENT RESIDENT AND SERVICE REVENUE (CONTINUED)

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 Payers

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Total Patient Service Revenue	\$ 27,775,939	\$ 26,396,388
Contractual Adjustments:		
Medicare	(6,322,972)	(5,689,053)
Medicaid	(929,643)	(603,653)
Provision for Bad Debt	(744,303)	(912,840)
Other	<u>(2,715,131)</u>	<u>(2,654,504)</u>
Total Contractual Adjustments and Bad Debts	<u>(10,712,049)</u>	<u>(9,860,050)</u>
Net Patient Service Revenues	<u>\$ 17,063,890</u>	<u>\$ 16,536,338</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 $\frac{3}{4}$.

The Hospital demonstrated meaningful use to the 90-day period ended August 31, 2011 and received notice of the first tentative incentive payment during the year ended June 2012. The Hospital completed additional expenditures for EHR and will submit costs for reimbursement subsequent to year end. The final amounts of payments will be determined based on information from the Hospitals' Medicare cost reports. 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, 2015 and 2014 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, 2015 and 2014, the Hospital's carrying amounts of cash and deposits are as follows:

	2015	2014
Checking and Savings Accounts	\$ 5,700,360	\$ 5,694,534
Certificates of Deposit	1,501,835	1,500,000
Total Deposits	\$ 7,202,195	\$ 7,194,534

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Included in the following statement of net position captions:

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	\$ 5,490,023	\$ 5,546,789
Current Investments	1,501,835	1,500,000
Noncurrent Cash and Investments:		
Restricted by Resident Trust Agreement	926	1,299
Internally Designated for Capital Acquisition	<u>209,411</u>	<u>146,446</u>
	<u>\$ 7,202,195</u>	<u>\$ 7,194,534</u>

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

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

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

NOTE 7 PATIENT AND RESIDENT RECEIVABLES

Patient and resident receivables reported as current assets by the Hospital at June 30, 2015 and 2014 are the following:

	<u>2015</u>	<u>2014</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,389,759	\$ 1,429,938
Receivable from Medicare	722,321	575,652
Receivable from Medicaid	<u>236,117</u>	<u>253,205</u>
Total Patient Receivables	2,348,197	2,258,795
Less Allowance for Doubtful Accounts	<u>(435,110)</u>	<u>(451,812)</u>
Patient Receivables, Net	<u>\$ 1,913,087</u>	<u>\$ 1,806,983</u>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 8 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 was as follows:

	June 30, 2014	Additions	(Retirements)	Transfers	June 30, 2015
Capital Assets					
Land and Land Improvements	\$ 1,376,523	\$ -	\$ -	\$ -	\$ 1,376,523
Building	13,608,091	-	-	-	13,608,091
Fixed Equipment	15,227,700	-	-	-	15,227,700
Major Movable Equipment	4,540,404	1,262,891	(140,486)	-	5,662,809
Construction in Progress	11,721	2,621,263	-	-	2,632,984
Totals	<u>\$ 34,764,439</u>	<u>\$ 3,884,154</u>	<u>\$ (140,486)</u>	<u>\$ -</u>	<u>\$ 38,508,107</u>
Accumulated Depreciation					
Land Improvements	\$ 541,137	\$ 87,702	\$ -	\$ -	\$ 628,839
Building	6,532,432	522,937	-	-	7,055,369
Fixed Equipment	4,823,129	896,333	(22,026)	-	5,697,436
Major Movable Equipment	3,256,587	535,632	(140,486)	-	3,651,733
Totals	<u>\$ 15,153,285</u>	<u>\$ 2,042,604</u>	<u>\$ (162,512)</u>	<u>\$ -</u>	<u>\$ 17,033,377</u>
	<u>\$ 19,611,154</u>				<u>\$ 21,474,730</u>
Capital Assets					
	June 30, 2013	Additions	(Retirements)	Transfers	June 30, 2014
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	<u>\$ 34,348,069</u>	<u>\$ 549,884</u>	<u>\$ (133,514)</u>	<u>\$ -</u>	<u>\$ 34,764,439</u>
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	<u>\$ 13,327,103</u>	<u>\$ 1,893,140</u>	<u>\$ (66,958)</u>	<u>\$ -</u>	<u>\$ 15,153,285</u>
	<u>\$ 21,020,966</u>				<u>\$ 19,611,154</u>

Construction in progress at June 30, 2015, consists of costs for an information system and electronic health records implementation of approximately 2.1 million. The information system and electronic health records is estimated to cost an addition \$140,000 and is expected to be completed in September of 2015.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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:

	2015	2014
Less Than One Year	\$ 5,000	\$ 23,167
	5,000	23,167
Less Unamortized Discount	-	(546)
Less Allowance for Uncollectible Promises to Give	(227)	(1,131)
	\$ 4,773	\$ 21,490

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended June 30, 2015 and 2014 is as follows:

	Balance July 1, 2014	Additions	(Payments)	Balance June 30, 2015	Amounts Due Within One Year
Promissory Note, Corn Belt Power	\$ 240,000	\$ -	\$ (45,000)	\$ 195,000	\$ 45,000
Promissory Note, FREC	485,625	-	(92,500)	393,125	92,500
Promissory Note, MFP Project	4,810,898	-	(385,253)	4,425,645	385,253
Total Note Payable	5,536,523	-	(522,753)	5,013,770	522,753
Capital Lease - Barrington	-	115,578	(1,875)	113,703	21,640
Capital Lease - CT Scanner	-	971,680	(74,892)	896,788	177,483
Total Long-Term Debt	\$ 5,536,523	\$ 1,087,258	\$ (599,520)	\$ 6,024,261	\$ 721,876

	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	\$ 6,059,276	\$ -	\$ (522,753)	\$ 5,536,523	\$ 522,753

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 10 LONG-TERM DEBT (CONTINUED)

Scheduled principal and interest payments on long-term debt are as follows:

Years Ending June 30,	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2016	\$ 522,753	\$ 196,520	\$ 199,123	\$ 29,885
2017	522,753	178,702	205,692	23,317
2018	522,753	160,884	212,477	16,531
2019	522,753	143,066	219,486	9,522
2020	423,377	125,248	173,713	2,420
2021-2025	1,926,265	358,969	-	-
2026-2027	573,116	20,828	-	-
	<u>\$ 5,013,770</u>	<u>\$ 1,184,217</u>	<u>\$ 1,010,491</u>	<u>\$ 81,675</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. 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%. Effective June 1, 2015 the interest rate reset from 4.625% to 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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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.

Capital Lease Obligations

The Hospital entered into two capital lease obligations for the year ended 2015 for the purchase of a CT Scanner and Chemistry Integrated System. An imputed interest rate of 3.25% has been calculated and the leases are collateralized by the leased equipment.

The cost of the equipment under the capital lease obligations is \$1,087,257. Amortization of the equipment was \$76,976 and accumulated amortization was \$76,976 for the year ended June 30, 2015.

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 \$48,079 and \$38,520 at June 30, 2015 and 2014, respectively. Net assets were released from restrictions in satisfaction of donor restrictions in the amounts of \$25,000 and \$83,187 for the years ended June 30, 2015 and 2014, respectively.

Permanently restricted net assets reflected by the Foundation consist of amounts raised and held by unrelated foundations in the amounts of \$241,660 and \$244,164 at June 30, 2015 and 2014. 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, 2015 and 2014 was \$97,300 and \$213,000, respectively.

The hospital no longer has future lease payments for non-cancellable operating leases as of June 30, 2015.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 FUNCTIONAL EXPENSES

Program and general expenses of the Foundation for the years ended June 30, 2015 and 2014 are as follows.

	2015	2014
Program	\$ 38,450	\$ 282,673
Management and General	57,665	45,161
Total	\$ 96,115	\$ 327,834

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, 2015 and 2014 was \$20,000 and \$15,230, respectively.

The Foundation is also the beneficiary of an endowment fund held in its name by the Northeast Iowa Community Foundation. The endowment is to be held in perpetuity with investments proceeds available for distribution to the Foundation. The amount held by the

Northeast Iowa Foundation was \$11,691 and \$10,443 at June 30, 2015 and 2014, respectively.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 PENSION AND RETIREMENT BENEFITS

Plan Description

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.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of the 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$518,402.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2015, the Hospital reported a liability of \$3,234,795 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014 the Hospital's collective proportion was .081324 percent which was a decrease of .001840 percent from its proportion measured as of June 30, 2013. At June 30, 2014 The Hospital's proportion for the protection service group was .072315 percent which was a .001763 percent increase from its proportion measured as of June 30, 2013.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 PENSION AND RETIRMENT BENEFITS (CONTINUED)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

For the year ended June 30, 2015, the Hospital recognized pension expense of \$231,782. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 544,147	\$ -
Changes of Assumptions	145,250	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,909,125
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	435	-
Health System Contributions Subsequent to the Measurement Date	518,402	-
	<u>\$ 1,208,234</u>	<u>\$ 1,909,125</u>

\$518,402 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

<u>Years Ending June 30,</u>	<u>Amount</u>
2016	\$ (306,317)
2017	(306,317)
2018	(306,317)
2019	(306,317)
2020	5,978
Total	<u>\$ (1,219,290)</u>

There were no non-employer contributing entities at IPERS.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 PENSION AND RETIRMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compound annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experiences studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 PENSION AND RETIRMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Health System's Proportionate Share of the Net Pension Liability	\$ 6,278,213	\$ 3,234,795	\$ 666,005

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$90,788 for legally required employer contributions and employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2015 and 2014, respectively:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2015			
Assets			
Investments in Mutual Funds	\$ 517,370	\$ -	\$ -
Beneficial Interest in Net Assets of Community Foundations	<u>-</u>	<u>-</u>	<u>241,660</u>
	<u>\$ 517,370</u>	<u>\$ -</u>	<u>\$ 241,660</u>
Liabilities			
Annuity Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>
	<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>

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2015 and 2014, were classified as follows in the Statement of Activities and Changes in Net Position:

	2015	2014
Annuity Payable		
Balance - Beginning of Year	\$ 15,320	\$ 21,375
Payments Made to Annuitant	(7,382)	(7,382)
Increase Due to Change in Estimated Life Expectancy	12,062	1,327
Balance - End of Year	\$ 20,000	\$ 15,320
	2015	2014
Beneficial Interest in Net Assets of Community Foundations		
Balance - Beginning of Year	\$ 244,164	\$ 210,817
Investment Income	8,059	32,920
Contributions Received	1,250	9,001
Grants Paid	(9,149)	(8,000)
Other Activity	(2,664)	(574)
Balance - End of Year	\$ 241,660	\$ 244,164

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 \$2,788,759 and \$2,251,827 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 17 RELATED PARTY TRANSACTIONS (CONTINUED)

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 \$629,518 and \$657,090 for the years ended June 30, 2015 and 2014, respectively.

Due to Affiliated Organization

As of June 30, 2015 and 2014, the Hospital's records reflect a due to MHN of \$225,524 and \$237,507, 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:

<u>Years Ending June 30,</u>	<u>Total</u>
2016	\$ 51,000

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.

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 18 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 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 payer agreements. The mix of receivables from third-party payers, patients, and residents at June 30, 2015 and 2014 was as follows:

	2015	2014
Medicare	39%	35%
Medicaid	10%	12%
Commercial Insurance	25%	26%
Other Third-Party Payors, Patients, and Residents	26%	27%
	100%	100%

**FRANKLIN GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 21 CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2015, Governmental Accounting Standards Board Statement, No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, was implemented by the Hospital. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state a local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Stands Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net Position June 30, 2014 as Previously Reported	\$ 21,974,633
Net Pension Liability at June 30, 2014	(4,730,684)
Deferred Outflows of Resources Related to Contributions Made After June 30, 2013 Measurement Date	<u>508,378</u>
Net Position July 1, 2014, as Restated	<u><u>\$ 17,752,327</u></u>

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, 2015**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,211,419	\$ -	\$ 1,211,419	\$ 1,179,148	\$ 32,271
Estimated Other Revenues/Receipts	<u>18,007,138</u>	<u>116,877</u>	<u>18,124,015</u>	<u>19,218,906</u>	<u>(1,094,891)</u>
	19,218,557	116,877	19,335,434	20,398,054	(1,062,620)
Expenses/Disbursements	<u>17,821,751</u>	<u>1,570,449</u>	<u>19,392,200</u>	<u>19,268,308</u>	<u>123,892</u>
Net	1,396,806	(1,453,572)	(56,766)	1,129,746	(1,186,512)
Balance, Beginning of Year	<u>17,752,327</u>	<u>(12,205,538)</u>	<u>5,546,789</u>	<u>6,767,014</u>	<u>(1,220,225)</u>
Balance, End of Year	<u><u>\$ 19,149,133</u></u>	<u><u>\$ (13,659,110)</u></u>	<u><u>\$ 5,490,023</u></u>	<u><u>\$ 7,896,760</u></u>	<u><u>\$ (2,406,737)</u></u>

**FRANKLIN GENERAL HOSPITAL
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015**

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, 2015.

For the year ended June 30, 2015, the Hospital's expenditures exceeded the amount budgeted.

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (unaudited)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

	2015
Hospital's Proportion of the Net Pension Liability	0.0081324%
Hospital's Proportionate Share of the Net Pension Liability	\$ 3,234,795
Hospital's Covered-Employee Payroll	\$ 5,835,762
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	55.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF HOSPITAL CONTRIBUTIONS
(UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 518,402	\$ 508,378	\$ 489,026
Contributions in Relation to the Statutorily Required Contribution	<u>518,402</u>	<u>508,378</u>	<u>489,026</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered-Employee Payroll	5,705,550	5,835,762	5,858,187
Contributions as a Percentage of Covered-Employee Payroll (Regular)	8.93%	8.93%	8.68%
Contributions as a Percentage of Covered-Employee Payroll (Protection)	10.14%	10.14%	10.14%

Note: GASB 68 requires ten years of information to be presented in this table. However, until a full ten year is compiled, the Hospital will present information for those years for which information is available.

**FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

NOTE 2 PENSION LIABILITY

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

Adjusted retiree mortality assumptions.

- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

**FRANKLIN GENERAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

NOTE 2 PENSION LIABILITY (CONTINUED)

Changes of Assumptions (Continued)

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

OTHER SUPPLEMENTARY INFORMATION

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	2015	2014
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,964,812	\$ 2,055,115
 OTHER PROFESSIONAL SERVICES		
Operating Room	748,709	730,656
Anesthesiology	621,987	642,373
Radiology	4,595,293	4,273,538
Laboratory	4,585,610	4,088,242
Respiratory Therapy	576,455	511,736
Physical Therapy	2,011,593	1,934,885
Occupational Therapy	240,417	180,218
Speech Therapy	17,729	25,180
Electrocardiology	214,516	203,690
Medical and Surgical Supplies	743,765	771,237
Pharmacy	1,353,009	1,442,422
Wound Therapy	36,018	13,989
Cardiac Rehab	175,817	158,286
Infusion Therapy	110,943	271,245
Nursing Facility	2,738,512	2,823,918
Clinics	3,759,060	3,630,340
Emergency Room	2,188,092	1,640,405
Ambulance	1,122,621	1,020,400
Total Gross Patient Service Revenues	27,804,958	26,417,875
Less Charity Care	(29,019)	(21,487)
Total Patient Service Revenues	27,775,939	26,396,388
 CONTRACTUAL ADJUSTMENTS		
Medicare	(6,322,972)	(5,689,053)
Medicaid	(929,643)	(603,653)
Other	(2,715,131)	(2,654,504)
Provision for Bad Debts	(744,303)	(912,840)
Total Deductions	(10,712,049)	(9,860,050)
 Net Patient Service Revenues	\$ 17,063,890	\$ 16,536,338

INPATIENT		OUTPATIENT	
2015	2014	2015	2014
\$ 1,783,123	\$ 1,705,144	\$ 181,689	\$ 349,971
19,884	5,649	728,825	725,007
20,187	6,562	601,800	635,811
198,030	146,510	4,397,263	4,127,028
320,087	292,703	4,265,523	3,795,539
180,291	207,575	396,164	304,161
295,352	342,756	1,716,241	1,592,129
133,780	107,867	106,637	72,351
4,502	4,332	13,227	20,848
6,912	6,472	207,604	197,218
301,830	304,908	441,935	466,329
592,914	558,337	760,095	884,085
4,284	1,308	31,734	12,681
-	-	175,817	158,286
2,738	9,325	108,205	261,920
2,738,512	2,823,918	-	-
-	-	3,759,060	3,630,340
68,934	57,684	2,119,158	1,582,721
37,280	56,751	1,085,341	963,649
<u>\$ 6,708,640</u>	<u>\$ 6,637,801</u>	<u>\$ 21,096,318</u>	<u>\$ 19,780,074</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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 6,322,972	\$ 5,689,053
Contractual Adjustments - Medicaid	929,643	603,653
Provision for Bad Debt	744,303	912,840
Other Allowances and Adjustments	<u>2,715,131</u>	<u>2,654,504</u>
 Total Adjustments	 <u>\$ 10,712,049</u>	 <u>\$ 9,860,050</u>
OTHER REVENUES		
Clinic Rent Income	\$ 60,077	\$ 51,446
Pharmacy Rent	14,214	14,514
Dietary	80,317	55,326
Grant Revenue	61,876	25,185
Retail Pharmacy	542,568	625,116
Medical Record Transcripts	164	774
Miscellaneous	<u>30,437</u>	<u>59,295</u>
 Total Other Revenues	 <u>\$ 789,653</u>	 <u>\$ 831,656</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	2015	2014
Employee Benefits	\$ 1,462,724	\$ 1,647,346
Administrative and General	1,687,836	1,975,953
Marketing	74,022	42,600
Operation of Plant	253,548	265,893
Repairs and Maintenance	275,919	296,644
Laundry and Linen	114,761	119,788
Housekeeping	256,879	209,500
Dietary	506,360	509,152
Central Sterile	45,037	50,154
Adults and Pediatrics	1,176,844	1,090,519
Nursing Administration	35,298	54,259
Purchasing	66,193	62,841
Medical Records	119,263	128,608
Social Services	57,287	52,153
Medical and Surgical	-	32,237
Nursing Facility	1,271,705	1,239,783
Operating Room	326,065	300,437
Anesthesiology	144,553	162,645
Radiology	820,282	925,817
Laboratory	668,565	609,197
Respiratory Therapy	62,983	46,755
Physical Therapy	760,712	752,791
Occupational Therapy	93,723	69,818
Speech Therapy	8,512	10,171
Wound Therapy	11,097	4,733
Electrocardiology	14,754	12,514
Central Supply	62,648	71,717
Pharmacy	534,552	689,582
Cardiac Rehab	68,586	55,775
Infusion Therapy	10,003	15,995
Clinics	2,993,417	2,522,117
Emergency Room	1,391,304	1,231,662
Ambulance	276,877	247,196
Patient Education	-	14,207
Community Education	3,438	4,442
Depreciation	1,919,418	1,769,957
Interest	202,548	230,671
Total	<u>\$ 17,777,713</u>	<u>\$ 17,525,629</u>

SALARIES		OTHER	
2015	2014	2015	2014
\$ -	\$ -	\$ 1,462,724	\$ 1,647,346
513,456	575,604	1,174,380	1,400,349
-	-	74,022	42,600
-	-	253,548	265,893
134,691	146,242	141,228	150,402
12,087	11,599	102,674	108,189
168,940	178,081	87,939	31,419
288,698	291,765	217,662	217,387
32,398	28,110	12,639	22,044
946,898	918,652	229,946	171,867
24,372	38,505	10,926	15,754
64,709	61,050	1,484	1,791
64,785	74,676	54,478	53,932
56,767	50,352	520	1,801
-	-	-	32,237
1,015,919	1,019,481	255,786	220,302
213,468	184,542	112,597	115,895
-	-	144,553	162,645
212,624	225,141	607,658	700,676
304,719	294,970	363,846	314,227
4,043	4,900	58,940	41,855
-	-	760,712	752,791
-	-	93,723	69,818
-	-	8,512	10,171
-	-	11,097	4,733
7,424	5,505	7,330	7,009
-	-	62,648	71,717
-	-	534,552	689,582
60,092	44,689	8,494	11,086
9,964	13,985	39	2,010
1,092,219	1,234,612	1,901,198	1,287,505
255,215	210,891	1,136,089	1,020,771
221,933	206,678	54,944	40,518
-	12,979	-	1,228
2,129	2,753	1,309	1,689
-	-	1,919,418	1,769,957
-	-	202,548	230,671
<u>\$ 5,707,550</u>	<u>\$ 5,835,762</u>	<u>\$ 12,070,163</u>	<u>\$ 11,689,867</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2015		2014	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital)	\$ 2,045,051	64.79 %	\$ 2,167,146	68.17 %
31-60 Days	298,784	9.47	326,776	10.28
61-90 Days	206,430	6.54	197,477	6.21
91 Days and Over	606,151	19.20	487,421	15.34
Total Accounts Receivable	<u>3,156,416</u>	<u>100.00 %</u>	<u>3,178,820</u>	<u>100.00 %</u>
Less: Allowance for Doubtful Accounts	435,110		451,812	
Allowance for Contractual Adjustments	<u>808,219</u>		<u>920,025</u>	
Net Accounts Receivable	<u>\$ 1,913,087</u>		<u>\$ 1,806,983</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 46,750</u>		<u>\$ 45,305</u>	
Days of Net Revenue in Net Accounts Receivable at Year End	<u>\$ 41</u>		<u>\$ 40</u>	

Analysis of Allowance for Doubtful Accounts

	2015		2014	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 451,812		\$ 509,356	
Add:				
Provision for Doubtful Accounts	744,303	0.04 %	912,840	0.05 %
Recoveries Previously Written Off	<u>216,568</u>	0.01 %	<u>301,014</u>	0.02 %
	960,871		1,213,854	
Deduct:				
Accounts Written Off	<u>(977,573)</u>	(0.06)%	<u>(1,271,398)</u>	(0.07)%
Ending Balance	<u>\$ 435,110</u>		<u>\$ 451,812</u>	

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSES
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
INVENTORIES		
Medical / Surgical	\$ 57,596	\$ 38,327
Laboratory	-	91,622
Pharmacy	<u>81,610</u>	<u>29,157</u>
Total Inventories	<u>\$ 139,206</u>	<u>\$ 159,106</u>
PREPAID EXPENSES		
Insurance	\$ 196,747	\$ 142,857
Rent	4,200	4,200
Other	<u>99,437</u>	<u>100,308</u>
Total Prepaid Expenses	<u>\$ 300,384</u>	<u>\$ 247,365</u>

**FRANKLIN GENERAL HOSPITAL
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ACUTE		
Admissions	192	196
Discharges	194	197
Average Length of Stay	3.72	3.98
Patient Days	722	784
Occupancy Percentage	7.91%	8.59%
Beds	25	25
SWING BED		
Admissions	133	116
Discharges	134	113
Average Length of Stay	10.78	12.08
Patient Days	1,445	1,365
NURSING FACILITY		
Admissions	38	30
Discharges	43	35
Patient Days	16,670	17,544
Occupancy Percentage	87.8%	92.4%
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, in accordance with the 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, the financial statements of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of and for the year ended June 30, 2015, which comprise the statements of net position and statements of financial positions as of June 30, 2015 and 2014, respectively, and the related statements of revenues, expenses, and changes in net position, activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, material weaknesses may exist that have not 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, 2015, 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
December 7, 2015

**FRANKLIN GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to Financial Reporting:

NONE IDENTIFIED

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-15 **Certified Budget** – Disbursements during the year ended June 30, 2015, exceeded the amount budgeted due to increased expenses related to capital projects.
- Recommendation** – The budget should be amended in accordance with the Code of Iowa prior to expenses exceeding budget.
- Response** – Expenses will be monitored in the future and a budget amendment passed prior to expenses exceeding budgeted amounts
- Conclusion** – Response accepted.
- II-B-15 **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-15 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-15 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-15 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-15 **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-15 **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.

