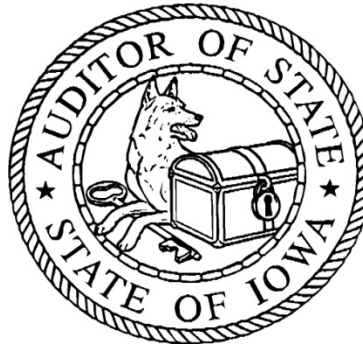


**SAMPLE HOSPITAL**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

Office of  
**AUDITOR  
OF STATE**  
State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
**Auditor of State**







# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report has been prepared by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of public hospitals should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Additional guidance is provided in the Audit and Accounting Guide, Health Care Organizations, issued by the American Institute of Certified Public Accountants.

Sample Hospital is an example of a report for a hospital established under Chapter 347 of the Code of Iowa. This sample has been prepared in accordance with U.S. generally accepted accounting principles.

The format displays the financial statements, required and other supplementary information and Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable, subject, of course, to materiality considerations. If the auditor and the Hospital feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations. The auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Hospitals with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Hospital's cognizant or oversight agency.

In accordance with OMB Circular A-133, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/sac/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated emails from the Federal Audit Clearinghouse as verification of the submission. In addition, reporting packages or notifications of audit should be submitted to grantor pass-through entities in accordance with the filing requirements of the Circular.

In December 2008, the Securities and Exchange Commission adopted an amendment to its Rule 15c2-12 governing ongoing disclosure by municipalities to the bond markets. The amendment was effective July 1, 2009 and widened those issuers subject to the ongoing filing requirements and now virtually any municipality which issues more than one million dollars of securities per issue is subject to an ongoing filing responsibility. The amendment requires, in part, all continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (PDF) and, effective January 1, 2010, such filings must be in a word-searchable PDF (not scanned) format.

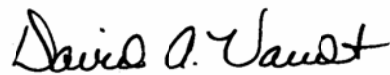
The findings on compliance, items IV-A-11 through IV-F-11, detail those items which are to be commented on regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the Hospital for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the Hospital and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately of any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to public hospitals. Together, we are able to provide a significant benefit to all taxpayers in the state.



DAVID A. VAUDT, CPA  
Auditor of State

**Office of Auditor of State**  
**Report Filing Requirements**

**Paper Copy Submission**

Two paper copies of the audit report, including the management letter(s) if issued separately, are required to be filed with this office upon release to the Hospital within nine months following the end of the fiscal year subject to audit. In addition to the copies of the audit report, a copy of the CPA firm's per diem audit billing including total cost and hours and a copy of the news release or media notification should be sent to:

Office of Auditor of State  
State Capitol Building  
Room 111  
1007 East Grand Avenue  
Des Moines, Iowa 50319-0001

**Electronic Submission**

The Hospital or CPA firm must also e-mail a PDF copy of the audit report to the Auditor of State's Office at:

[SubmitReports@auditor.state.ia.us](mailto:SubmitReports@auditor.state.ia.us)

If you are unable to e-mail the file, you may mail a CD containing the PDF file to this office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

**Filing Fee Submission**

The filing fee should be mailed separately to:

Office of Auditor of State  
PO Box 333  
Des Moines, Iowa 50302-0333

The designated budget strata and applicable filing fees are as follows:

<u>Budgeted Expenditures in Millions of Dollars</u>	<u>Filing Fee Amount</u>
Under 1	\$100.00
At least 1 but less than 3	\$175.00
At least 3 but less than 5	\$250.00
At least 5 but less than 10	\$425.00
At least 10 but less than 25	\$625.00
25 and over	\$850.00

**Sample Hospital**  
**Year Ended June 30, 2011**

**Outline of Major Changes**

- A. Revised the Iowa Public Employees Retirement System (IPERS) note disclosure (Note 6) for changes in the contribution rates effective July 1, 2010.
- B. Revised the Other Postemployment Benefits (OPEB) note disclosure (Note 8) and the Schedule of Funding Progress for the Retiree Health Plan Required Supplementary Information for third year reporting under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.
- C. Revised the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for implementation of SAS No. 117.

**Additional Notes**

1. Also attached are a sample Corrective Action Plan for Federal Audit Findings (see **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (see **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
2. The attached sample Corrective Action Plan refers the user to the Hospital's response to the auditor's comment for the detailed corrective action planned. If the Hospital's response to the auditor's comment does not include the details of their planned corrective action, this information should be included in the Corrective Action Plan itself.
3. If the Hospital has deposits in credit unions at June 30, 2011, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the Hospital or the Hospital's agent in the Hospital's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
4. Following is an example footnote for an early retirement or other benefit plan or policy which meets the definition of a "termination benefit" as defined by GASB Statement No. 47.

**Sample Note – Termination Benefits**

The Hospital offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the Hospital and must have reached the age of fifty-five on or before June 30 in the calendar year which early retirement commences. The application for early retirement is subject to approval by the Board of Trustees and no more than five employees per year will be granted benefits under the policy.

Early retirement benefits are equal to 60% of the employee's regular contractual salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$30,000.

Early retirement benefits will be paid in three equal installments in January following the start of retirement. The second payment will be paid the following July and the third and final payment shall be paid during July of the next year.

At June 30, 2011, the Hospital has obligation to ten participants with a total liability of \$171,285. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$125,534.

**Additional Notes****Sample A**

## Sample Hospital

## Corrective Action Plan for Federal Audit Findings

Year ended June 30, 2011

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-11	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Adam Administration, Sample Hospital Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 14, 2011.
III-B-11	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Hospital Treasurer, (515) YYY-XXXX	November 2, 2011
III-C-11	Financial Reporting	As noted in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the March, 2012 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures were implemented on September 30, 2011.  Timely report filing will begin with the quarter ending March, 2012.

**Sample B****Additional Notes (continued)**

Sample Hospital

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2011

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-C-08 III-B-09 III-B-10	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part.
III-A-09 III-A-10	Segregation of Duties over Federal Reserves	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
III-C-10	Capital Assets	Corrective action taken.	
III-D-10	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending March, 2012.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact:

FOR RELEASE \_\_\_\_\_

Auditor of State David A. Vaudt today released an audit report on Sample Hospital, Anywhere, Iowa.

The Hospital's revenues totaled \$\_\_\_\_\_ for the year ended June 30, 2011, a(n) \_\_\_\_\_ % increase (decrease) from the prior year. The revenues included \$\_\_\_\_\_ in net patient revenue, \$\_\_\_\_\_ of other operating revenue, \$\_\_\_\_\_ from gifts and bequests and \$\_\_\_\_\_ in interest on investments.

Expenses for the year totaled \$\_\_\_\_\_, a(n) \_\_\_\_\_ % increase (decrease) from the prior year, and included \$\_\_\_\_\_ for \_\_\_\_\_ a\_\_\_\_\_, \$\_\_\_\_\_ for \_\_\_\_\_ b\_\_\_\_\_ and \$\_\_\_\_\_ for \_\_\_\_\_ c\_\_\_\_\_. (a,b,c - categories with three highest expense totals.)

The significant increase (decrease) in revenues and expenses is due primarily to \_\_\_\_\_.

A copy of the audit report is available for review in the Hospital Administrator's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

###



**SAMPLE HOSPITAL**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Statements of Net Assets	A	14-15
Statements of Revenues, Expenses and Changes in Net Assets	B	16
Statements of Cash Flows	C	18-19
Notes to Financial Statements		20-29
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis)		31
Notes to Required Supplementary Information – Budgetary Reporting		32
Schedule of Funding Progress for the Retiree Health Plan		33
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Patient Service Revenue	1	35
Schedule of Adjustments to Patient Service Revenue/Other Operating Revenues	2	36
Schedule of Nursing Service Expenses	3	38-39
Schedule of Other Professional Service Expenses	4	40-41
Schedule of General Service Expenses	5	42
Schedule of Fiscal and Administrative Service Expenses	6	44-45
Schedule of Patient Receivables and Allowance for Doubtful Accounts	7	46
Schedule of Inventory/Prepaid Expense	8	47
Schedule of Expenditures of Federal Awards	9	48
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		49-50
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		51-52
Schedule of Findings and Questioned Costs		53-57
Staff		58

**Sample Hospital**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Samuel Smith	Chairperson	Jan 2014
Frank Jones	Vice-Chairperson	Jan 2014
Frieda Friend	Secretary/Treasurer	Jan 2012
Verne Wilson	Member	Jan 2012
R. W. Jarvis	Member	Jan 2012
Arthur Johnson	Member	Jan 2014
J. Frank Smith	Member	Jan 2014
Adam Administration	Administrator	Indefinite
B.C. Accountant	Chief Financial Officer	Indefinite

**Sample Hospital**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board of Trustees  
of Sample Hospital:

We have audited the accompanying basic financial statements of Sample Hospital as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Sample Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Hospital as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As more fully described in Note 11, a claim in excess of professional liability insurance coverage has been asserted against Sample Hospital. Legal counsel and management are unable to estimate the ultimate cost, if any, that may result from the resolution of the claim. Accordingly, no provision for claims in excess of professional liability insurance coverage has been made in the accompanying financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2011 on our consideration of Sample Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Sample Hospital's basic financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

September 22, 2011

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

Management of Sample Hospital provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider this information in conjunction with the Hospital's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- ◆ The Hospital's operating loss increased 4.5%, or approximately \$35,000, from fiscal year 2010 to fiscal year 2011, primarily due to an increase in other professional services.
- ◆ Net patient service revenue increased 10.9%, or approximately \$173,000, from fiscal year 2010 to fiscal year 2011, primarily due to increased fees for hospital patients.
- ◆ Operating expenses increased 8.4%, or approximately \$200,000, from fiscal year 2010 to fiscal year 2011 due to increases in salaries, wages and related employee benefits.
- ◆ Gifts and bequests increased 162.7%, or approximately \$80,000, from fiscal year 2010 to fiscal year 2011, primarily due to an increase in restricted donations.
- ◆ The Hospital's net assets increased 3.1%, or approximately \$42,000, from June 30, 2010 to June 30, 2011.

### 2010 FINANCIAL HIGHLIGHTS

- ◆ The Hospital's operating loss decreased 5.6%, or approximately \$46,000, from fiscal year 2009 to fiscal year 2010.
- ◆ Net patient service revenue increased 19.0%, or approximately \$252,000, from fiscal year 2009 to fiscal year 2010, primarily due to increased fees for hospital patients.
- ◆ Operating expenses increased 9.4%, or approximately \$205,000, from fiscal year 2009 to fiscal year 2010 due to increases in salaries, wages and related employee benefits.
- ◆ Gifts and bequests decreased 59.7%, or approximately \$73,000, from fiscal year 2009 to fiscal year 2010 due to a decrease in restricted donations.
- ◆ The Hospital's net assets decreased 1%, or approximately \$1,000, from June 30, 2009 to June 30, 2010.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Hospital's financial activities.

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the activities of the Hospital, on a comparative basis, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Hospital's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the operations of the Hospital. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Hospital.

## **REPORTING THE HOSPITAL'S FINANCIAL ACTIVITIES**

### *The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets*

One of the most important questions asked about the Hospital's finances is "Is the Hospital as whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets, which is the difference between assets and liabilities, as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

### *The Statement of Cash Flows*

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

## FINANCIAL ANALYSIS OF THE HOSPITAL

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Hospital's net assets increased approximately \$42,000 (3.1%) from fiscal year 2010 to fiscal year 2011 and decreased approximately \$1,000 (1.0%) from fiscal year 2009 to fiscal year 2010.

Assets, Liabilities and Net Assets			
	June 30,		
	2011	2010	2009
Current assets	\$ 767,900	727,950	808,200
Restricted assets	742,600	677,250	659,400
Capital assets	1,224,600	1,180,600	1,023,840
Total assets	2,735,100	2,585,800	2,491,440
Current liabilities	431,000	456,300	409,300
Long-term liabilities	822,900	772,300	715,000
Total liabilities	1,253,900	1,228,600	1,124,300
Net assets:			
Invested in capital assets, net of related debt	534,600	469,600	447,500
Restricted:			
Nonexpendable	300,000	228,000	224,000
Expendable	56,100	57,000	52,000
Unrestricted	508,200	602,600	643,640
Total net assets	\$ 1,398,900	1,357,200	1,367,140

Restricted assets increased \$71,100 from fiscal year 2010 to fiscal year 2011, primarily due to the increase of \$75,100 in restricted donations. Restricted assets increased \$9,000 from fiscal year 2009 to fiscal year 2010.

Unrestricted net assets decreased \$94,400 from fiscal year 2010 to fiscal year 2011, primarily due to other postemployment benefits expenses. Unrestricted net assets decreased \$41,040 from fiscal year 2009 to fiscal year 2010, primarily due to other postemployment benefits expenses.

The following shows the changes in net assets for the Hospital.

Revenues, Expenses and Changes in Net Assets			
	Year ended June 30,		
	2011	2010	2009
<b>Operating revenues:</b>			
Net patient service revenue	\$ 1,752,500	1,579,700	1,327,400
Other operating revenues	18,700	27,100	28,300
Total operating revenues	1,771,200	1,606,800	1,355,700
<b>Operating expenses:</b>			
Nursing service	1,163,811	1,115,140	1,017,900
Other professional service	611,658	521,003	482,800
General service	348,576	327,113	297,400
Fiscal and administrative service	367,655	329,344	289,700
Provision for depreciation	83,400	83,400	83,400
Total operating expenses	2,575,100	2,376,000	2,171,200
Operating loss	(803,900)	(769,200)	(815,500)
<b>Non-operating revenues (expenses):</b>			
Grants	500,000	501,000	512,500
County tax revenue	212,000	207,000	205,000
Gifts and bequests	129,000	49,100	121,700
Interest expense	(36,700)	(39,100)	(35,900)
Gain (loss) on disposal of equipment	(1,800)	200	1,700
Investment income	43,100	41,100	39,700
Total non-operating revenues	845,600	759,300	844,700
Increase in net assets	41,700	(9,900)	29,200
Net assets beginning of year	1,357,200	1,367,100	1,337,900
Net assets end of year	\$ 1,398,900	1,357,200	1,367,100

### Operating Losses

The first component of the overall change in the Hospital's net assets is its operating loss, which is the sum of net patient service and other operating revenues reduced by the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Sample County and the surrounding area. The Hospital levies property tax to provide resources to enable the Hospital to serve lower income and other residents without the ability to pay for services received.

The operating loss for fiscal year 2011 increased \$34,700, or 4.5%, compared to fiscal year 2010.

The primary components of the increased operating loss for fiscal year 2011 are:

- An increase in nursing service expenses of approximately \$49,000, or 4.4%, due to increased supplies and other expenses for the central services and supply function.
- An increase in other professional service expenses of approximately \$91,000, or 17.4%, as a result of the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

- An increase in general service expenses of approximately \$21,000, or 6.6%, due to increases in employee benefits relating to the recognition of other postemployment benefits expense.
- An increase in fiscal and administrative service expenses of approximately \$38,000, or 11.6%, because of increases in salaries, wages and related employee benefits.

Non-operating revenues and expenses consist primarily of property tax, grants, gifts and bequests and investment income. Grants and investment income remained relatively constant in fiscal year 2011 as compared to fiscal year 2009, but gifts and bequests increased \$79,900, or 162.7%, primarily due to an increase in restricted donations of \$75,100 from fiscal year 2010 to fiscal year 2011.

The operating loss for fiscal year 2010 decreased \$46,300, or 5.6%, compared to fiscal year 2009.

The primary components of the decreased operating loss for fiscal year 2010 are:

- An increase in net patient service revenue of approximately \$252,000, or 19.0%, as a result of increased fees for hospital services to patients.
- An increase in nursing service expenses of approximately \$97,000, or 9.6%, because of increases in salaries, wages and related employee benefits.
- An increase in fiscal and administrative service operating expenses of approximately \$40,000, or 13.7%, because of increases in salaries, wages and related employee benefits.

Non-operating revenues and expenses consist primarily of property tax, grants, gifts and bequests and investment income. Investment income remained relatively constant in fiscal year 2010 as compared to fiscal year 2009. Gifts and bequests decreased \$72,600, or 59.7%, primarily due to a decrease in restricted donations of \$70,000 from fiscal year 2009 to fiscal year 2010. Grant income decreased \$11,500, or 2.2%, in fiscal year 2010 compared to fiscal year 2009 due to less federal grant funds received from the Department of Public Health.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, the Hospital had \$1,224,600 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note 4 to the financial statements. In fiscal year 2011, the Hospital acquired or constructed capital assets costing \$133,400, financed by funds designated by the Board of Trustees.

At June 30, 2010, the Hospital had \$1,180,600 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note 4 to the financial statements. The Hospital did not acquire any capital assets during fiscal year 2010.

### **Long-term Debt**

At June 30, 2011, the Hospital had outstanding revenue bonds and an equipment note totaling \$690,000, as detailed in Note 7 to the financial statements. The Hospital issued no new debt in fiscal year 2011.

At June 30, 2010, the Hospital had outstanding revenue bonds and an equipment note totaling \$711,000, as detailed in Note 7 to the financial statements. During fiscal year 2010, the Hospital entered into a \$90,000 note for the purchase of equipment.

The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings during the past two years.

### **ECONOMIC FACTORS**

Sample Hospital continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Hospital officials. Some of the realities which may potentially become challenges for the Hospital to meet are:

- Drug costs will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Shortages in finding qualified employees.
- Potential changes in Medicare and Medicaid reimbursement rates.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

### **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Hospital Business Administration, 201 Main Street, City of Anywhere, Iowa.

## **Basic Financial Statements**

**Exhibit A**

Sample Hospital  
Statements of Net Assets  
June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 200	47,100
Receivables:		
Accounts (less allowance for doubtful accounts of \$70,000 in 2011 and \$60,000 in 2010)	349,000	335,000
Delinquent property tax	11,000	10,000
Succeeding year property tax	218,000	213,000
Accrued interest	9,000	5,750
Estimated amount due from contracting agencies	50,000	-
Pledges receivable (less allowance for doubtful pledges of \$7,090 in 2011 and \$6,700 in 2010)	9,000	11,000
Other	3,400	3,000
Inventory	90,000	80,000
Prepaid expense	24,000	19,000
Other assets	4,300	4,100
Total current assets	<u>767,900</u>	<u>727,950</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments	742,600	677,250
Capital assets:		
Land and construction in progress, not being depreciated/amortized	48,700	25,000
Other capital assets being depreciated/amortized	1,651,500	1,551,800
Less accumulated depreciation/amortization	(475,600)	(396,200)
Net capital assets	<u>1,224,600</u>	<u>1,180,600</u>
Total noncurrent assets	<u>1,967,200</u>	<u>1,857,850</u>
<b>Total assets</b>	<u>2,735,100</u>	<u>2,585,800</u>

Sample Hospital  
 Statements of Net Assets  
 June 30, 2011 and 2010

	2011	2010
<b>Liabilities</b>		
Current liabilities:		
Excess of outstanding checks over bank balance	21,500	-
Current maturities of long-term debt	25,000	21,000
Accounts payable	77,200	148,000
Accrued salaries and wages	64,200	53,500
Payroll taxes withheld and accrued	5,700	3,100
Credit balances in patient accounts	11,200	9,100
Estimated amount due to contracting agencies	-	3,500
Deferred revenue for succeeding year property tax receivable	218,000	213,000
Other current liabilities	8,200	5,100
Total current liabilities	431,000	456,300
Long-term liabilities:		
Bonds payable	584,000	600,000
Mortgage note payable	81,000	90,000
Net OPEB liability	157,900	82,300
Total long-term liabilities	822,900	772,300
<b>Total liabilities</b>	1,253,900	1,228,600
<b>Net Assets</b>		
Invested in capital assets, net of related debt	534,600	469,600
Restricted:		
Nonexpendable	300,000	228,000
Expendable	56,100	57,000
Unrestricted	508,200	602,600
<b>Total net assets</b>	\$ 1,398,900	1,357,200

See notes to financial statements.

**Exhibit B**

## Sample Hospital

## Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Patient service revenue	\$ 1,835,000	1,674,000
Less:		
Provision for bad debts	(55,000)	(47,000)
Contractual adjustments	(17,600)	(45,000)
Discounts and allowances	(9,900)	(2,300)
Net patient service revenue	1,752,500	1,579,700
Other operating revenues	18,700	27,100
Total operating revenues	1,771,200	1,606,800
Operating expenses:		
Nursing service	1,163,811	1,115,140
Other professional service	611,658	521,003
General service	348,576	327,113
Fiscal and administrative service	367,655	329,344
Provision for depreciation/amortization	83,400	83,400
Total operating expenses	2,575,100	2,376,000
Operating loss	(803,900)	(769,200)
Non-operating revenues (expenses):		
Grants	500,000	501,000
County tax revenue	212,000	207,000
Gifts and bequests	129,000	49,100
Interest expense	(36,700)	(39,100)
Gain (loss) on disposal of equipment	(1,800)	200
Investment income	43,100	41,100
Net non-operating revenues	845,600	759,300
Changes in net assets	41,700	(9,900)
Net assets beginning of year	1,357,200	1,367,100
Net assets end of year	\$ 1,398,900	1,357,200

See notes to financial statements.

**Sample Hospital**

## Sample Hospital

## Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from patient services	\$ 1,675,300	1,544,200
Cash paid to suppliers for goods and services	(695,266)	(948,787)
Cash paid to employees for services	(1,709,334)	(1,325,713)
Other operating revenues	25,300	34,700
Net cash used for operating activities	(704,000)	(695,600)
Cash flows from non-capital financing activities:		
Grants received	510,000	501,000
County tax received	211,000	205,000
Unrestricted contributions received	49,700	44,100
Net cash provided by non-capital financing activities	770,700	750,100
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(133,400)	-
Principal paid on revenue bonds	(21,000)	(15,000)
Interest paid on revenue bonds and equipment contracts	(36,700)	(39,100)
Proceeds from sale of equipment	4,200	-
Temporarily restricted contributions received	71,200	-
Net cash used for capital and related financing activities	(115,700)	(54,100)
Cash flows from investing activities:		
Purchase of investments	(150,000)	(89,000)
Proceeds from sale and maturities of investments	78,000	80,000
Interest on investments	45,950	39,800
Net cash provided by (used for) investing activities	(26,050)	30,800
Net increase (decrease) in cash and cash equivalents	(75,050)	31,200
Cash and cash equivalents beginning of year	496,350	465,150
Cash and cash equivalents end of year	\$ 421,300	496,350

## Sample Hospital

## Statement of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
<b>Reconciliation of cash and cash equivalents to the Statements of Net Assets:</b>		
Cash and cash equivalents	\$ 200	47,100
Assets whose use is limited:		
Cash and cash equivalents	442,600	449,250
Excess of outstanding checks over bank balance	(21,500)	-
Total cash and cash equivalents	<u>\$ 421,300</u>	<u>496,350</u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (803,900)	(769,200)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation/amortization	83,400	83,400
Net assets released from restrictions	(5,000)	(1,000)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(15,000)	(21,000)
(Increase) in estimated amount due from contracting agencies	(50,000)	-
(Increase) decrease in other receivables	(400)	1,600
(Increase) in inventory	(10,000)	-
(Increase) in prepaid expense	(5,000)	(5,000)
(Increase) in other assets	(200)	(100)
Increase (decrease) in accounts payable	11,500	(14,700)
Increase (decrease) in accrued salaries and wages	10,700	(27,600)
Increase (decrease) in payroll taxes withheld and accrued	2,600	(3,000)
Increase (decrease) in credit balances in patient accounts	2,100	(4,000)
(Decrease) in estimated amount due to contracting agencies	(3,500)	(10,500)
Increase (decrease) in other current liabilities	3,100	(6,800)
Increase in other postemployment benefits	75,600	82,300
Total adjustments	<u>99,900</u>	<u>73,600</u>
Net cash used for operating activities	<u>\$ (704,000)</u>	<u>(695,600)</u>

See notes to financial statements.

Sample Hospital

Notes to Financial Statements

June 30, 2011 and 2010

**(1) Summary of Significant Accounting Policies**

Sample Hospital is a County public hospital organized under Chapter 347 of the Code of Iowa which is governed by a seven member board of trustees elected for terms of six years.

The Hospital's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Sample Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The Statement of Net Assets displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

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

*Restricted net assets:*

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

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

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

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

C. 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 accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents – The Hospital considers savings accounts and all other highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Inventory – Inventory is valued at historical cost using the first-in, first-out method.

Restricted Assets – Restricted assets consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes. Gifts and bequests whose use is restricted are also included in restricted assets.

Capital Assets – Capital assets are carried at cost. The Hospital computes depreciation/amortization on buildings, intangibles and equipment using primarily the straight-line method. Lives for the building and land improvements are fifteen to fifty years, lives for intangibles are from two to twenty years and equipment lives range from ten to thirty years.

Pledges Receivable – Pledges, less a provision for uncollectible amounts, are recorded as a receivable in the year made.

Property Tax Receivable – Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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.

Investments – Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at June 30, 2011.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue represents the amount of assets which have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of the succeeding year property tax receivable.

F. Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included in non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

G. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable 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.

H. Charity Care

The Hospital provides care to patients 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 is automatically 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 bad debts or adjustments to patient service revenue, depending on the timing of the charity determination.

**(2) Cash and Investments**

The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2011 and 2010, the Hospital's investments were as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Bonds, June 30, 2011	<u>\$ 300,000</u>	January 2012
U.S. Treasury Bonds, June 30, 2010	<u>\$ 228,000</u>	November 2010

Interest rate risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

**(3) Estimated Amounts Due From and Due to Contracting Agencies**

The Hospital has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost findings indicated the agencies owed the Hospital approximately \$50,000 at June 30, 2011. At June 30, 2010, the Hospital owed the agencies approximately \$3,500. A carry-over resulting from an excess of cost over charges of approximately \$46,500 will expire June 30, 2012.

**(4) Capital Assets**

Capital assets activity for the years ended June 30, 2011 and 2010 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Fiscal year ended June 30, 2011:				
Capital assets not being depreciated/amortized:				
Land	\$ 25,000	-	-	25,000
Construction in progress	-	23,700	-	23,700
Total capital assets not being depreciated/amortized	25,000	23,700	-	48,700
Capital assets being depreciated/amortized:				
Buildings	637,500	-	-	637,500
Improvements other than buildings	27,000	-	-	27,000
Intangibles	25,000	-	-	25,000
Fixed equipment	421,200	37,100	6,000	452,300
Major moveable equipment	441,100	72,600	4,000	509,700
Total capital assets being depreciated/amortized	1,551,800	109,700	10,000	1,651,500
Less accumulated depreciation/amortization for:				
Buildings	194,000	16,000	-	210,000
Improvements other than buildings	9,500	3,100	-	12,600
Intangibles	12,500	1,250	-	13,750
Fixed equipment	92,000	30,000	2,000	120,000
Major moveable equipment	88,200	33,050	2,000	119,250
Total accumulated depreciation/amortization	396,200	83,400	4,000	475,600
Total capital assets being depreciated/amortized, net	1,155,600	26,300	6,000	1,175,900
Total capital assets, net	\$ 1,180,600	50,000	6,000	1,224,600
Fiscal year ended June 30, 2010:				
Capital assets not being depreciated/amortized:				
Land	\$ 25,000	-	-	25,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated/amortized	25,000	-	-	25,000
Capital assets being depreciated/amortized:				
Buildings	637,500	-	-	637,500
Improvements other than buildings	27,000	-	-	27,000
Intangibles	25,000	-	-	25,000
Fixed equipment	421,200	-	-	421,200
Major moveable equipment	441,100	-	-	441,100
Total capital assets being depreciated/amortized	1,551,800	-	-	1,551,800
Less accumulated depreciation/amortization for:				
Buildings	178,000	16,000	-	194,000
Improvements other than buildings	6,400	3,100	-	9,500
Intangibles	11,250	1,250	-	12,500
Fixed equipment	62,000	30,000	-	92,000
Major moveable equipment	55,150	33,050	-	88,200
Total accumulated depreciation/amortization	312,800	83,400	-	396,200
Total capital assets being depreciated/amortized, net	1,239,000	(83,400)	-	1,155,600
Total capital assets, net	\$ 1,264,000	(83,400)	-	1,180,600

**(5) Construction Commitment**

During the year ended June 30, 2011, the Hospital entered into a construction contract totaling approximately \$85,000 to alter existing laboratory facilities. At June 30, 2011, \$23,700 of the project had been completed. Financing for the new construction is being provided by funds designated by the Board of Trustees.

**(6) Pension and Retirement Benefits**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Hospital is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$52,977, \$50,454 and \$48,051, respectively, equal to the required contributions for each year.

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the years ended June 30, 2011 and 2010 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Year ended June 30, 2011:					
Bonds payable	\$ 621,000	-	21,000	600,000	16,000
Note payable	90,000	-	-	90,000	9,000
Net OPEB liability	82,300	75,600	-	157,900	-
Total	\$ 793,300	75,600	21,000	847,900	25,000
Year ended June 30, 2010:					
Bonds payable	\$ 636,000	-	15,000	621,000	21,000
Note payable	-	90,000	-	90,000	-
Net OPEB liability	-	82,300	-	82,300	-
Total	\$ 636,000	172,300	15,000	793,300	21,000

The bonds payable are revenue bonds issued under the provisions of Chapter 331.461 of the Code of Iowa and, as such, the Hospital has pledged future revenues, net of specified operating expenses, to repay the bonds. The bonds were issued in 2006 and the proceeds provided financing for building improvements. The bonds are payable solely from revenue from operations of the Hospital and are payable through 2031.

Annual principal and interest payments on the bonds are expected to require less than 40 percent of the change in net assets. The total principal and interest remaining to be paid on the bonds is \$1,035,527. For the current year, principal and interest paid and the change in net assets (plus depreciation expense) were \$45,700 and \$118,400, respectively. The details of the Hospital's bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	5.50%	\$ 16,000	33,000	49,000
2013	5.50	17,000	32,120	49,120
2014	5.50	18,000	31,185	49,185
2015	5.75	20,000	31,568	51,568
2016	5.75	22,000	30,418	52,418
2017-2021	5.75-6.50	131,000	137,208	268,208
2022-2026	6.25-6.50	171,000	99,143	270,143
2027-2031	6.50	205,000	40,885	245,885
Total		\$ 600,000	435,527	1,035,527

The Hospital has reserved the right to call any of these bonds prior to maturity on or after November 1, 2014.

The note payable is for equipment purchased in 2010 and has a principal balance outstanding of \$90,000 at June 30, 2011. The note is secured by the equipment purchased. This note is payable in equal yearly installments of \$9,000 plus interest through the year ending June 30, 2021. The note interest rate is 7.5% per annum.

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 200 active and 12 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The Hospital's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Hospital's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution	\$ 101,500
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(3,300)</u>
Annual OPEB cost	102,200
Contributions made	<u>(26,600)</u>
Increase in net OPEB obligation	75,600
Net OPEB obligation beginning of year	<u>82,300</u>
Net OPEB obligation end of year	<u>\$ 157,900</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Hospital contributed \$26,600 to the medical plan. Plan members eligible for benefits contributed \$24,900, or 48% of the premium costs.

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 101,500	36.9%	\$ 64,000
2010	101,900	19.2%	82,300
2011	102,200	26.0%	157,900

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$655,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$655,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,799,000 and the ratio of the UAAL to covered payroll was 36.4%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$823 per month for retirees less than age 65 and \$283 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Interest Cost**

The Hospital's policy is to capitalize interest cost on construction in progress to the extent such construction is capitalized in the Statement of Net Assets. When the financing for such construction is not associated with a specific borrowing, the Hospital determines the capitalization rate based on the rates applicable to borrowings outstanding during the period. For the year ended June 30, 2011, the Hospital capitalized \$1,422 of interest cost using a capitalization rate of 6% and incurred total interest cost of \$38,122.

**(10) Operating Leases**

The Hospital has entered into agreements to lease laboratory and pharmacy equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expenses as incurred. The leases expire between January 1, 2013 and June 30, 2017. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

A schedule of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2011 and June 30, 2010 is as follows:

Year Ending June 30,	Amount	
	June 30,	
	2011	2010
2011	\$ -	50,800
2012	47,100	47,100
2013	36,700	36,700
2014	22,600	22,600
2015	6,000	6,000
2016	1,000	1,000
Total	\$ 113,400	164,200

Total rental expense for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less which were not renewed, was \$50,800.

Total rental expense for the year ended June 30, 2010 for all operating leases, except those with terms of a month or less which were not renewed, was \$52,700.

**(11) Contingent Liability**

The Hospital has been named a co-defendant in a malpractice suit relating to care provided to a patient in May, 2009. The total amount of the suit, \$5,100,000, exceeds the applicable insurance coverage of the Hospital. The action is in its early stages and may ultimately be tried before a jury. Legal counsel is unable to evaluate the eventual outcome of the suit. Since the amount of the contingency arising from the claim cannot be reasonably estimated, no provision has been made.

**(12) Risk Management**

Sample 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.

**Required Supplementary Information**

Sample Hospital

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets  
Budget and Actual (Cash Basis)

Required Supplementary Information

Year ended June 30, 2011

	Actual Accrual Basis	Accrual Adjust- ments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
Estimated amount to be raised by taxation	\$ 212,000	(1,000)	211,000	203,000	203,000	8,000
Estimated other revenues/ receipts	2,443,300	(61,650)	2,381,650	2,385,000	2,400,000	(18,350)
	2,655,300	(62,650)	2,592,650	2,588,000	2,603,000	(10,350)
Expenses/disbursements	2,613,600	(17,900)	2,595,700	2,670,000	2,685,000	89,300
Net	41,700	(44,750)	(3,050)	(82,000)	(82,000)	78,950
Balance beginning of year	1,357,200	(632,850)	724,350	782,000	782,000	(57,650)
Balance end of year	\$ 1,398,900	(677,600)	721,300	700,000	700,000	21,300

See accompanying independent auditor's report.

Sample Hospital

Notes to Required Supplementary Information -  
Budgetary Reporting

June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Sample 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.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amount budgeted.

---

Sample Hospital

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	Jul 1, 2008	-	\$ 619	614	0.0%	\$ 1,709	36.2%
2010	Jul 1, 2008	-	619	614	0.0%	1,751	35.1%
2011	Jul 1, 2010	-	655	655	0.0%	1,799	36.4%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

**Other Supplementary Information**

## Sample Hospital

## Patient Service Revenue

Years ended June 30, 2011 and 2010

	2011			2010
	Inpatient	Outpatient	Total	Total
Daily patient service:				
Medical and surgical	\$ 521,017	-	521,017	495,522
Obstetric	68,000	-	68,000	55,000
Intensive care and monitor	31,454	-	31,454	34,772
Extended care	7,895	-	7,895	9,972
Nursery	13,534	-	13,534	12,234
	<u>641,900</u>	<u>-</u>	<u>641,900</u>	<u>607,500</u>
Other nursing service:				
Operating rooms	57,419	-	57,419	50,782
Recovery rooms	8,135	-	8,135	9,242
Delivery and labor rooms	9,660	-	9,660	9,228
Central services and supply	64,607	7,179	71,786	54,855
Intravenous therapy	33,725	1,406	35,131	29,523
Emergency units	7,154	9,515	16,669	11,570
	<u>180,700</u>	<u>18,100</u>	<u>198,800</u>	<u>165,200</u>
Other professional service:				
Laboratory	275,400	22,600	298,000	266,251
Blood transfusions	13,168	-	13,168	10,727
Electrocardiology	29,654	1,000	30,654	33,120
Radiology	117,846	25,000	142,846	139,420
Pharmacy	136,640	16,360	153,000	154,620
Oxygen	22,886	-	22,886	14,067
Anesthesiology	55,298	2,000	57,298	61,799
Inhalation therapy	93,158	-	93,158	72,177
Physical therapy	160,638	6,290	166,928	139,148
Speech therapy	13,662	-	13,662	8,270
Ambulance	1,350	1,350	2,700	1,701
	<u>919,700</u>	<u>74,600</u>	<u>994,300</u>	<u>901,300</u>
Total	<u>\$ 1,742,300</u>	<u>92,700</u>	<u>1,835,000</u>	<u>1,674,000</u>

See accompanying independent auditor's report.

**Schedule 2**

---

## Sample Hospital

## Adjustments to Patient Service Revenue/Other Operating Revenues

Years ended June 30, 2011 and 2010

	2011	2010
Adjustments to patient service revenue:		
Provision for bad debts	\$ (55,000)	(47,000)
Contractual adjustments	(17,600)	(45,000)
Discounts and allowances	(9,900)	(2,300)
Total	\$ (82,500)	(94,300)
Other operating revenues:		
Meals sold to employees	\$ 6,400	7,533
Guest trays	1,880	4,000
Soft drinks	2,644	5,200
Meals-on-Wheels	1,129	3,200
Sale of supplies	312	1,392
Medical record transcripts	520	1,790
Television	408	958
Telephone	389	1,527
Other	18	500
Net assets released from restrictions	5,000	1,000
Total	\$ 18,700	27,100

See accompanying independent auditor's report.

**Sample Hospital**

**Schedule 3**

---

## Sample Hospital

## Nursing Service Expenses

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Administrative:		
Salaries and benefits	\$ 134,726	136,868
Commuting reimbursement	4,496	4,274
Supplies and other expense	840	1,238
	<u>140,062</u>	<u>142,380</u>
Medical and surgical:		
Salaries and benefits	888,677	831,201
Supplies and other expense	10,460	14,070
	<u>899,137</u>	<u>845,271</u>
Extended care:		
Salaries and benefits	4,449	4,461
Supplies and other expense	714	900
	<u>5,163</u>	<u>5,361</u>
Intensive care and cardiac monitor:		
Salaries and benefits	12,938	14,360
Supplies and other expense	3,672	3,962
	<u>16,610</u>	<u>18,322</u>
Obstetric:		
Salaries and benefits	4,592	3,791
Supplies and other expense	543	852
	<u>5,135</u>	<u>4,643</u>
Nursery:		
Salaries and benefits	4,355	5,392
Supplies and other expense	498	1,386
	<u>4,853</u>	<u>6,778</u>

## Sample Hospital

## Nursing Service Expenses

Years ended June 30, 2011 and 2010

	2011	2010
Operating room:		
Salaries and benefits	15,852	17,807
Supplies and other expense	4,244	10,456
	<u>20,096</u>	<u>28,263</u>
Recovery room:		
Salaries and benefits	12,291	8,346
Supplies and other expense	31	116
	<u>12,322</u>	<u>8,462</u>
Delivery and labor rooms:		
Salaries and benefits	2,002	2,212
Supplies and other expense	1,778	2,442
	<u>3,780</u>	<u>4,654</u>
Central services and supply:		
Salaries and benefits	5,973	10,121
Supplies and other expense	30,044	23,970
	<u>36,017</u>	<u>34,091</u>
Intravenous therapy:		
Supplies and other expense	17,139	11,331
Emergency service:		
Salaries and benefits	2,445	4,296
Supplies and other expense	1,052	1,288
	<u>3,497</u>	<u>5,584</u>
Total	<u>\$ 1,163,811</u>	<u>1,115,140</u>

See accompanying independent auditor's report.

**Schedule 4**

---

## Sample Hospital

## Other Professional Service Expenses

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Administrative:		
Salaries and benefits	\$ 53,217	54,052
Professional fees	20,989	19,319
Blood	12,691	11,434
Supplies and other expense	94,840	43,244
	<u>181,737</u>	<u>128,049</u>
Electrocardiology:		
Salaries and benefits	2,649	4,211
Professional fees	5,225	7,323
Supplies and other expense	5,267	4,545
	<u>13,141</u>	<u>16,079</u>
Radiology:		
Salaries and benefits	32,757	31,813
Professional fees	53,200	52,999
Supplies and other expense	24,706	21,209
	<u>110,663</u>	<u>106,021</u>
Pharmacy:		
Professional fees	5,250	5,250
Drugs	42,270	53,446
Supplies and other expense	2,699	2,676
	<u>50,219</u>	<u>61,372</u>
Anesthesiology:		
Salaries and benefits	43,344	46,359
Professional fees	2,531	3,875
Supplies and other expense	6,535	6,526
	<u>52,410</u>	<u>56,760</u>

## Sample Hospital

## Other Professional Service Expenses

Years ended June 30, 2011 and 2010

	2011	2010
Inhalation therapy:		
Salaries and benefits	47,226	31,608
Professional fees	2,016	-
Supplies and other expense	17,891	9,733
	<u>67,133</u>	<u>41,341</u>
Physical therapy:		
Professional fees	103,324	82,089
Supplies and other expense	3,149	3,035
	<u>106,473</u>	<u>85,124</u>
Ambulance service:		
Salaries and benefits	711	918
Supplies and other expense	734	277
	<u>1,445</u>	<u>1,195</u>
Medical records:		
Salaries and benefits	15,813	17,170
Supplies and other expense	1,553	1,017
	<u>17,366</u>	<u>18,187</u>
Social services:		
Professional fees	-	131
Supplies and other expense	32	8
	<u>32</u>	<u>139</u>
Speech therapy:		
Professional fees	10,940	6,736
Supplies and other expense	99	-
	<u>11,039</u>	<u>6,736</u>
Total	<u>\$ 611,658</u>	<u>521,003</u>

See accompanying independent auditor's report.

**Schedule 5**

---

## Sample Hospital

## General Service Expenses

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Dietary:		
Salaries and benefits	\$ 80,172	70,801
Professional fees	2,080	2,120
Blood	54,938	58,420
Supplies and other expense	4,683	2,938
	<u>141,873</u>	<u>134,279</u>
Operation of plant:		
Salaries and benefits	54,004	39,408
Repair and maintenance	4,350	8,545
Supplies	3,072	3,887
Electricity	27,085	22,410
Gas	20,513	18,320
Water	7,048	5,832
Water softener salt	3,364	2,620
Oil	377	12
Television rental	71	1,038
Other expense	200	287
	<u>120,084</u>	<u>102,359</u>
Housekeeping:		
Salaries and benefits	41,377	43,841
Supplies	7,354	7,025
Other expense	764	806
	<u>49,495</u>	<u>51,672</u>
Laundry and linen:		
Salaries and benefits	31,030	31,463
Supplies	3,612	3,128
Other expense	2,482	4,212
	<u>37,124</u>	<u>38,803</u>
Total	<u>\$ 348,576</u>	<u>327,113</u>

See accompanying independent auditor's report.

**Sample Hospital**

**Schedule 6**

---

## Sample Hospital

## Fiscal and Administrative Service Expenses

Years ended June 30, 2011 and 2010

	2011	2010
Accounting:		
Salaries and benefits	\$ 62,541	54,982
Auditing	6,218	5,844
Supplies and forms	5,602	4,973
Other expense	3,185	7,343
	<u>77,546</u>	<u>73,142</u>
Personnel:		
Salaries and benefits	15,554	9,358
Supplies and other expense	628	494
	<u>16,182</u>	<u>9,852</u>
Central stores:		
Salaries and benefits	27,663	26,642
Cost of supplies sold	5,640	4,470
Supplies and other expense	1,023	1,250
	<u>34,326</u>	<u>32,362</u>
Administration:		
Salaries and benefits	87,031	78,121
Telephone	4,660	5,565
Supplies and forms	6,347	6,073
Postage	3,605	3,280
Collection and fees	6,166	5,591
Dues, subscriptions and licenses	3,067	4,244
Equipment rental and repair	3,045	1,468
Other expense	2,715	2,118
	<u>116,636</u>	<u>106,460</u>
Education:		
Salaries and benefits	2,536	3,568
Supplies and other expense	858	800
	<u>3,394</u>	<u>4,368</u>

## Sample Hospital

## Fiscal and Administrative Service Expenses

Years ended June 30, 2011 and 2010

	2011	2010
Employee welfare:		
FICA and IPERS	108,752	88,683
Other employee benefits	3,557	2,286
	112,309	90,969
Insurance and taxes:		
Liability and property insurance	7,253	12,186
Use and property tax	9	5
	7,262	12,191
Total	\$ 367,655	329,344

See accompanying independent auditor's report.

**Schedule 7**

## Sample Hospital

Patient Receivables and Allowance  
for Doubtful Accounts

June 30, 2011 and 2010

Days Since Discharge	Analysis of Aging			
	2011		2010	
	Amount	Percent to Total	Amount	Percent to Total
0-30	\$ 117,000	27.92%	\$ 114,000	28.86%
31-120	94,000	22.43	89,000	22.53
121-360	67,000	15.99	63,000	15.95
361 and over	78,000	18.62	71,000	17.98
	<u>356,000</u>	<u>85.35</u>	<u>337,000</u>	<u>85.68</u>
In hospital	<u>63,000</u>	<u>15.04</u>	<u>58,000</u>	<u>14.682</u>
	<u>419,000</u>	<u>100.00%</u>	<u>395,000</u>	<u>100.00%</u>
Allowance for doubtful accounts	<u>70,000</u>		<u>60,000</u>	
Total	<u>\$ 349,000</u>		<u>\$ 335,000</u>	

	Allowance for Doubtful Accounts	
	Year ended June 30,	
	2011	2010
Balance beginning of year	\$ 60,000	55,000
Provision for uncollectible accounts	55,000	47,000
Accounts written off	(45,000)	(42,000)
Balance end of year	<u>\$ 70,000</u>	<u>60,000</u>

See accompanying independent auditor's report.

Sample Hospital  
Inventory/Prepaid Expense  
June 30, 2011 and 2010

	2011	2010
Inventory:		
Store room	\$ 29,669	27,917
Pharmacy	25,000	22,800
Dietary	4,481	4,577
Maintenance	7,547	6,065
Laboratory	10,500	6,263
Anesthesia	1,107	1,611
Central supply	4,492	3,200
Intravenous therapy	2,161	1,113
Other medical supplies	5,043	6,454
Total	<u>\$ 90,000</u>	<u>80,000</u>
Prepaid expense:		
Service contracts	\$ 700	500
Dues	3,700	2,600
Insurance	17,000	13,500
Equipment rental	1,000	1,300
Group insurance advance payment	1,600	1,100
Total	<u>\$ 24,000</u>	<u>19,000</u>

See accompanying independent auditor's report.

**Schedule 9**

Sample Hospital  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Public Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5880A100	\$ 85,000
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5889A100	255,000
			<u>340,000</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Family Planning_Services	93.217	5880FP100	36,000
Family Planning_Services	93.217	5889FP100	84,000
			<u>120,000</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5880HV100	11,500
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5889HV100	28,500
			<u>40,000</u>
Total			<u>\$ 500,000</u>

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

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's 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

To the Board of Trustees  
of Sample Hospital:

We have audited the accompanying financial statements of Sample Hospital as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sample Hospital's internal control over financial reporting.

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

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 a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-11 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Hospital's financial statements 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. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA  
Auditor of State

September 22, 2011



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Board of Trustees  
of Sample Hospital:

### Compliance

We have audited Sample Hospital's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2011. Sample Hospital's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Sample Hospital's management. Our responsibility is to express an opinion on Sample Hospital's compliance based on our audit.

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

In our opinion, Sample Hospital complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

### Internal Control Over Compliance

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

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

A deficiency in the Hospital's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

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

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

DAVID A. VAUDT, CPA  
Auditor of State

September 22, 2011

Sample Hospital  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.557 – Special Supplemental Nutrition Program for Women, Infants and Children.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample Hospital did not qualify as a low-risk auditee.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Treasurer or some other accountant.

Response and Corrective Action Planned – We will revise our procedures as suggested. We plan to implement these changes by November 2, 2011.

Conclusion – Response accepted.

II-B-11 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the Hospital's financial statements. Adjustments were subsequently made by the Hospital to properly include these amounts in the financial statements.

Recommendation – The Hospital should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Hospital's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

II-C-11 Spoiled and Voided Checks – Spoiled and voided checks were not retained.

Recommendation – All spoiled and voided checks should be retained.

Response – We will retain all spoiled and voided checks.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 10.557: Special Supplemental Nutrition Program for Women, Infants  
and Children**

**Pass-through Agency Number: 5889A100 and 5880A100**

**Federal Award Year: 2009 and 2010**

**U.S. Department of Agriculture**

**Passed through the Iowa Department of Public Health**

- III-A-11 Segregation of Duties over Federal Revenues – The Hospital did not properly segregate collecting, depositing and posting functions for revenues, including those related to federal programs. See item II-A-11.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.

IV-B-11 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The majority of these expenditures were coded to the Administration Account. These expenditures are detailed as follows:

Paid to	Purpose	Amount
XYZ Inc.	Employee anniversary gifts	\$ 2,000
The Department Store	Employee Christmas gift certificates	10,000
Book Shop	Amway gift booklets	1,000
Anywhere Country Club	Employee gift certificate	20
Chamber of Commerce	Dues	250
Flowers Florist	Flowers, plants, centerpieces	650
First Quality Jewelers	Gifts	100
Camp Away from Home	Donation	50
The Lodge	Building rent for employee recognition party	300
Food Is Us	Meat and cheese tray for Doctor's Day	125
Cards Incorporated	Christmas postcards	90
Misc.	Cards, gifts, prizes, miscellaneous	<u>700</u>
Total		<u>\$ 15,285</u>

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The gift certificates for employees noted above were not accounted for through the regular payroll system and, therefore, the appropriate federal and state taxes were not withheld and the appropriate employer's share of FICA and IPERS was not paid.

Recommendation – The Board of Trustees should thoroughly consider and document the public purpose and propriety of these expenses or, if appropriate, request reimbursement. If the practice is continued, the Hospital should establish written policies and procedures, including requirements for proper documentation. Expenditures of this nature, if allowed in the future, should be clearly identified in the accounting records.

Response – We will establish written policies and document the public purpose in the future.

Conclusion – Response accepted.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-C-11 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

IV-D-11 Business Transactions – Business transactions between the Hospital and Hospital officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Samuel Smith, Board Chairperson, spouse of owner of Smith and Jones Physical Therapy, LLP	Services	\$ 1,245

This does not appear to be a voidable conflict of interest pursuant to Chapter 347.9A(2)(a) of the Code of Iowa which permits a direct interest of less than or equal to \$1,500 in transactions between a Hospital Trustee or a Hospital Trustee's spouse and the Hospital.

IV-E-11 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-F-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.

IV-G-11 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 did not publish a schedule of bills allowed or a schedule of salaries paid as required by the Code of Iowa.

Recommendation – The Hospital should publish the schedule of bills allowed and salaries by job classification in accordance with Chapter 347.13(11) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

Response – The Hospital will comply with the publishing requirements set forth in Chapter 347.13(11) of the Code of Iowa and the Supreme Court Case dated September 18, 1996.

Conclusion – Response accepted.

Sample Hospital

Staff

This audit was performed by:

Rhonda M. Greene, CPA, Manager  
James L. Smith, CPA, Senior Auditor  
Addison R. Schmitz, CPA, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State