

SAMPLE HOSPITAL

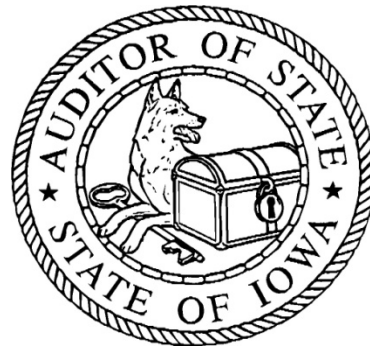
**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2019

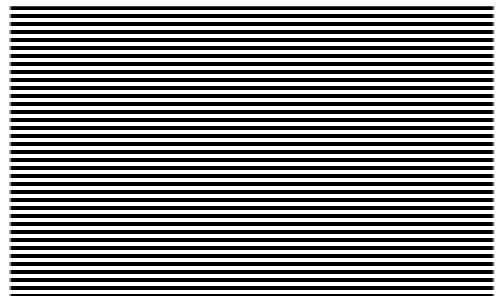
Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



Rob Sand
Auditor of State





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Practitioners:

This sample report is presented 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, Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). 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 shows the financial statements, required and 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 \$750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the Hospital's cognizant or oversight agency.

In accordance with the Uniform Guidance, 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 <https://harvester.census.gov/facweb/>. 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.

Under Rule 15c2-12 of the Securities and Exchange Commission governing ongoing disclosure by municipalities to the bond markets, virtually any municipality which issues more than \$1 million of securities per issue is subject to an ongoing filing responsibility. 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 (text-searchable PDF), i.e. not scanned.

The findings on compliance, items IV-A-19 through IV-F-19, 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 11.14 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 (paper copy or electronic format) should be completed by the CPA firm or the Hospital and submitted to this Office with a **text-searchable** electronic copy of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make the audit report and news release available to the news media in this Office.

In accordance with Chapter 11.6(7) of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

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.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

Office of Auditor of State

Report Filing Requirements

Report – The Hospital or CPA firm is required to submit an electronic **text-searchable**, PDF copy of the audit report, including the management letter(s) if issued separately, with this Office upon release to the Hospital within nine months following the end of the fiscal year subject to audit. Text-searchable files are required for the following reasons:

- The files created are much smaller in size than scanned-image files. Accordingly, text-searchable files require less storage space.
- Text-searchable files are required by the Census bureau when submitting Data Collection Forms and Single Audit reporting packages (i.e. consistent with Federal requirements).
- Text-searchable files provide transparency to the public.

Per Diem Audit Billing & News Release – 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 also be submitted. These items can be submitted as either paper copies or electronic copies.

Filing Fee – The filing fee should be submitted based on the following designated budget strata:

Budgeted Expenditures in Millions of Dollars	Filing Fee Amount
Under 1	\$ 100
At least 1 but less than 3	175
At least 3 but less than 5	250
At least 5 but less than 10	425
At least 10 but less than 25	625
25 and over	850

Submission – Electronic submission (text-searchable PDF) of the audit report, per diem audit billing and news release should be e-mailed to SubmitReports@auditor.state.ia.us.

If you are unable to e-mail the PDF files, you may mail a CD containing the files to this Office. You may direct any questions about submitting electronic files to the above e-mail address.

Paper copies (if not submitted electronically) of the per diem audit billing and news release, as well as the filing fee, should be sent to the following address:

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

Sample Hospital
Outline of Major Changes

- A. Included a note disclosure in the Notes to the Financial Statements regarding a prospective accounting change for GASB Statement No. 84, Fiduciary Activities. (Note 13)
- B. Revised the news release included in this Sample Hospital report to include information on the findings identified during the audit.

Additional Notes

- 1. Also attached are a sample Corrective Action Plan for Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not intended to match the findings shown in the sample entity nor are they required to be filed with this Office.
- 2. If the Hospital has deposits in credit unions at June 30, 2019, 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.
- 3. 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

In September 2018, the Hospital approved a voluntary early retirement plan for 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, 2019. The application for early retirement was subject to approval by the Board of Trustees.

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.

The policy requires early retirement benefits be paid in three equal annual installments beginning July 1, 2019.

At June 30, 2019, the Hospital has obligations to ten participants with a total liability of \$171,285. Actual early retirement expenditures for the year ended June 30, 2019 totaled \$125,534.

Sample A**Additional Notes (continued)**

Sample Hospital

Corrective Action Plan

Year ended June 30, 2019

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
II-A-19	Segregation of Duties	We have reviewed procedures and plan to make the necessary changes to improve internal control.	Tom Claim, Administrator, (515) YYY-XXXX	November 2, 2019
II-B-19	Financial Reporting	We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.	Joe Smith, Program Director, (515) YYY-XXXX	November 2, 2019
2019-001	Unsupported Expenditures	We will revise our procedures so documentation (e.g. invoices and time cards) is maintained to support federal expenditures. We returned the \$25,589 of questioned costs to the Iowa Economic Development Authority on October 3, 2019.	Tom Claim, Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Economic Development Authority on November 3, 2019.
2019-002	Segregation of Duties over Federal Revenues	We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy Treasurer will be separated and spread among the Treasurer, Deputy Treasurer and Clerk.	Julie Ledger, Treasurer, (515) YYY-XXXX	November 2, 2019
2019-003	Financial Reporting	We have implemented an independent review process which requires review by the Program Director, effective immediately. In addition, beginning with the December 2019 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2019.

In accordance with Uniform Guidance Section 200.511(a), the Corrective Action Plan must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Additional Notes (continued)**Sample B**

Sample Hospital

Summary Schedule of Prior Audit Findings

Year ended June 30, 2019

Comment Reference	Comment Title	Status	If not corrected, provide reason for finding's recurrence and planned corrective action or other explanation
2016-001 2017-001 2018-001	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.
II-A-17 2017-002 II-A-18 2018-002	Segregation of Duties over Federal Revenues	Not corrected.	Limited staff resulting from staff turnover. Plan to segregate duties for custody, recordkeeping and reconciling among staff when positions are filled.
II-B-17 II-B-18	Capital Assets	Corrective action taken.	
2018-003	Financial Reporting	Partially corrected.	Time was necessary to develop and implement review procedures. Timely report filing will begin with the quarter ending December 2019.

In accordance with Uniform Guidance Section 200.511(a), the Summary Schedule of Prior Audit Findings must also include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.



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NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State Rob Sand today released an audit report on Sample Hospital, Anywhere, Iowa.

FINANCIAL HIGHLIGHTS:

The Hospital's revenues totaled \$_____ for the year ended June 30, 2019, a(n) ____ % increase (decrease) from the prior year. Expenses for Hospital operations for the year ended June 30, 2019 totaled \$_____, a(n) ____ % increase (decrease) from the prior year. The significant increase (decrease) in revenues and expenses is due primarily to _____.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and expenditure of taxpayer funds. They are found on pages 66 through 71 of this report. The findings address issues such as a lack of segregation of duties, material amounts of receivables, payables and capital asset additions not properly recorded in the Hospital's financial statements and \$15,195 of questionable expenses. Sand provided the Hospital with recommendations to address each of these findings.

The Hospital Board of Trustees have a fiduciary responsibility to provide oversight of the Hospital's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

(NOTE to CPAs: Include significant findings, including material weaknesses, significant non-compliance and all Federal findings. Auditor judgement should be used to determine which significant deficiencies reported under Government Auditing Standards, if any, should be included.)

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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SAMPLE HOSPITAL

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

YEARS ENDED JUNE 30, 2019 AND 2018

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Sample Hospital

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Samuel Smith	Chairperson	Jan 2020
Frank Jones	Vice-Chairperson	Jan 2020
Frieda Friend	Secretary/Treasurer	Jan 2022
R. W. Jarvis	Member	Jan 2020
Verne Wilson	Member	Jan 2020
Arthur Johnson	Member	Jan 2022
J. Frank Smith	Member	Jan 2022
Adam Administration	Administrator	Indefinite
B.C. Accountant	Chief Financial Officer	Indefinite

Sample Hospital



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Independent Auditor's Report

To the Board of Trustees
of Sample Hospital:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Sample Hospital as of and for the years ended June 30, 2019 and 2018, and the related Notes to Financial Statements, which collectively comprise this Hospital's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

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

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

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, 2019 and 2018, and the changes in its financial position and, where applicable, its cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 11 to the financial statements, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, the Schedule of Hospital Contributions and the Schedule of Changes in the Hospital's Total OPEB Liability, Related Ratios and Notes on pages 9 through 14 and 42 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Hospital's basic financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2019 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 solely 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 effectiveness of Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Sample Hospital's internal control over financial reporting and compliance.

Marlys K. Gaston, CPA
Deputy Auditor of State

September 17, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Sample Hospital provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider this information in conjunction with the Hospital's financial statements, which follow.

2019 FINANCIAL HIGHLIGHTS

- The Hospital's operating loss increased 1.6%, or approximately \$12,000, from fiscal year 2018 to fiscal year 2019, primarily due to an increase in personnel costs.
- Net patient service revenue increased 10.9%, or approximately \$173,000, from fiscal year 2018 to fiscal year 2019, primarily due to increased fees for hospital patients.
- Gifts and bequests increased 162.7%, or approximately \$80,000, from fiscal year 2018 to fiscal year 2019, primarily due to an increase in restricted donations.
- The Hospital's net position increased approximately \$299,000 over the June 30, 2018 balance.

2018 FINANCIAL HIGHLIGHTS

- The Hospital's operating loss decreased 22.8%, or approximately \$232,000, from fiscal year 2017 to fiscal year 2018.
- Net patient service revenue increased 19.0%, or approximately \$252,000, from fiscal year 2017 to fiscal year 2018, primarily due to increased fees for hospital patients.
- Operating expenses increased less than 1%, or approximately \$20,000, from fiscal year 2017 to fiscal year 2018.
- Gifts and bequests decreased 59.7%, or approximately \$73,000, from fiscal year 2017 to fiscal year 2018 due to a decrease in restricted donations.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position 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, the Hospital's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Changes in Total OPEB Liability, Related Ratios and Notes.

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 Position and the Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position 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), deferred outflows of resources, liabilities and deferred inflows of resources 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 position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position 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 position may serve over time as a useful indicator of financial position. The Hospital's net position increased approximately \$175,000 from fiscal year 2017 to fiscal year 2018 and increased approximately \$135,000 from fiscal year 2018 to fiscal year 2019.

Statement of Net Position			
	June 30,		
	2019	2018	2017 (Not Restated)
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	<u>2,735,100</u>	<u>2,585,800</u>	<u>2,491,440</u>
Deferred outflows of resources	620,052	589,504	-
Current liabilities	213,000	243,300	200,300
Long-term liabilities	3,882,170	3,279,957	3,638,710
Total liabilities	<u>4,095,170</u>	<u>3,523,257</u>	<u>3,839,010</u>
Deferred inflows of resources	506,384	1,197,802	209,000
Net position:			
Net investment in capital assets	534,600	469,600	447,500
Restricted:			
Nonexpendable	300,000	228,000	224,000
Expendable	56,100	57,000	52,000
Unrestricted	<u>(2,137,102)</u>	<u>(2,300,355)</u>	<u>(2,280,070)</u>
Total net position	<u>\$ (1,246,402)</u>	<u>(1,545,755)</u>	<u>(1,556,570)</u>

Restricted nonexpendable net assets increased \$72,000 from fiscal year 2018 to fiscal year 2019, primarily due to the increase of \$75,100 in restricted donations. Restricted nonexpendable net assets increased \$4,000 from fiscal year 2017 to fiscal year 2018.

Unrestricted net position increased \$163,253 from fiscal year 2018 to fiscal year 2019, primarily due to an increase in net patient revenue netted with an increase in total OPEB liability. Unrestricted net position decreased \$20,285 from fiscal year 2017 to fiscal year 2018.

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

Statement of Revenues, Expenses and Changes in Net Position			
	Year ended June 30,		
	2019	2018	2017 (Not Restated)
Operating revenues:			
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	<u>1,771,200</u>	<u>1,606,800</u>	<u>1,355,700</u>
Operating expenses:			
Nursing service	1,120,687	1,081,140	1,065,848
Other professional service	658,794	576,503	582,800
General service	366,349	347,113	349,412
Fiscal and administrative service	338,217	302,529	289,700
Provision for depreciation	83,400	83,400	83,400
Total operating expenses	<u>2,567,447</u>	<u>2,390,685</u>	<u>2,371,160</u>
Operating loss	<u>(796,247)</u>	<u>(783,885)</u>	<u>(1,015,460)</u>
Non-operating revenues (expenses):			
Grants	750,000	701,000	712,500
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
Net non-operating revenues	<u>1,095,600</u>	<u>959,300</u>	<u>1,044,700</u>
Changes in net position	299,353	175,415	29,240
Net position beginning of year, as restated	<u>(1,545,755)</u>	<u>(1,721,170)</u>	<u>(1,585,810)</u>
Net position end of year	<u>\$ (1,246,402)</u>	<u>(1,545,755)</u>	<u>(1,556,570)</u>

Operating Losses

The first component of the overall change in the Hospital's net position 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 2019 increased \$12,362, or 1.6%, compared to fiscal year 2018.

The primary components of the increased operating loss for fiscal year 2019 are:

- An increase in net patient service revenue of approximately \$173,000, or 11.0%, due to increased fees for hospital patients.
- An increase in operating expenses of approximately \$177,000, or 7.4%, as a result of personnel costs.

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 2019 as compared to fiscal year 2018, but gifts and bequests increased \$79,900, or 162.7%, primarily due to an increase in restricted donations of \$75,100 from fiscal year 2018 to fiscal year 2019.

The operating loss for fiscal year 2018 decreased \$231,575, or 22.8%, compared to fiscal year 2017.

The primary component of the decreased operating loss for fiscal year 2018 was 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.

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 2018 as compared to fiscal year 2017. Gifts and bequests decreased \$72,600, or 59.7%, primarily due to a decrease in restricted donations of \$70,000 from fiscal year 2017 to fiscal year 2018. Grant income decreased \$11,500, or 1.6%, in fiscal year 2018 compared to fiscal year 2017 due to reduced federal grants received from the Iowa Department of Public Health.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, 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 2019, the Hospital acquired or constructed capital assets costing \$133,400, financed by funds designated by the Board of Trustees.

At June 30, 2018, 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 2018.

Long-Term Debt

At June 30, 2019, the Hospital had outstanding revenue bonds and an equipment note totaling \$690,000, as detailed in Note 6 to the financial statements. The Hospital issued no new debt in fiscal year 2019.

At June 30, 2018, the Hospital had outstanding revenue bonds and an equipment note totaling \$711,000, as detailed in Note 6 to the financial statements. During fiscal year 2018, the Hospital entered into a \$90,000 note for the purchase of equipment. The beginning outstanding debt was restated for the net pension liability of \$3,302,900.

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 of 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 50XXX-XXXX.

Sample Hospital

Basic Financial Statements

Exhibit A

Sample Hospital
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 200	47,100
Receivables:		
Accounts, less an allowance for doubtful accounts of \$70,000 in 2019 and \$60,000 in 2018	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, less an allowance for doubtful pledges of \$7,090 in 2019 and \$6,700 in 2018	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 and cash equivalents	524,900	449,250
Investments	217,700	228,000
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	<u>(475,600)</u>	<u>(396,200)</u>
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>
Total assets	<u>2,735,100</u>	<u>2,585,800</u>
Deferred Outflows of Resources		
Pension related deferred outflows	571,342	587,066
OPEB related deferred outflows	48,710	2,438
Total deferred outflows of resources	<u>620,052</u>	<u>589,504</u>

Sample Hospital
 Statements of Net Position
 June 30, 2019 and 2018

	2019	2018
Liabilities		
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
Other current liabilities	8,200	5,100
Total current liabilities	213,000	243,300
Long-term liabilities:		
Bonds payable	584,000	600,000
Note payable	81,000	90,000
Net pension liability	2,892,438	2,343,057
Total OPEB liability	324,732	246,900
Total long-term liabilities	3,882,170	3,279,957
Total liabilities	4,095,170	3,523,257
Deferred Inflows of Resources		
Unavailable property tax revenue	218,000	213,000
Pension related deferred inflows	288,384	984,802
Total deferred inflows of resources	506,384	1,197,802
Net Position		
Net investment in capital assets	534,600	469,600
Restricted:		
Nonexpendable	300,000	228,000
Expendable	56,100	57,000
Unrestricted	(2,137,102)	(2,300,355)
Total net position	\$ (1,246,402)	(1,545,755)

See notes to financial statements.

Sample Hospital

Sample Hospital

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2019 and 2018

	2019	2018
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	1,120,687	1,081,140
Other professional service	658,794	576,503
General service	366,349	347,113
Fiscal and administrative service	338,217	302,529
Provision for depreciation/amortization	83,400	83,400
Total operating expenses	2,567,447	2,390,685
Operating loss	(796,247)	(783,885)
Non-operating revenues (expenses):		
Grants	750,000	701,000
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	1,095,600	959,300
Change in net position	299,353	175,415
Net position beginning of year	(1,545,755)	(1,721,170)
Net position end of year	\$ (1,246,402)	(1,545,755)

See notes to financial statements.

Exhibit C

Sample Hospital

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from patient services	\$ 1,675,300	1,544,200
Cash paid to suppliers for goods and services	(945,266)	(1,148,787)
Cash paid to employees for services	(1,627,034)	(1,325,713)
Other operating revenues	25,300	34,700
Net cash used for operating activities	(871,700)	(895,600)
Cash flows from non-capital financing activities:		
Grants received	750,000	701,000
County tax received	211,000	205,000
Unrestricted contributions received	59,700	44,100
Net cash provided by non-capital financing activities	1,020,700	950,100
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 sales 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 in cash and cash equivalents	7,250	31,200
Cash and cash equivalents beginning of year	496,350	465,150
Cash and cash equivalents end of year	\$ 503,600	496,350

Sample Hospital

Statement of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of cash and cash equivalents to the Statements of Net Position:		
Cash and cash equivalents	\$ 200	47,100
Restricted cash and cash equivalents	524,900	449,250
Excess of outstanding checks over bank balance	(21,500)	-
Total cash and cash equivalents	<u>\$ 503,600</u>	<u>496,350</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (796,247)</u>	<u>(783,885)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation/amortization	83,400	83,400
Net position released from restrictions	(5,000)	(1,000)
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 (decrease) in net pension liability	549,381	(959,843)
Increase in deferred outflows of resources	(32,986)	(207,836)
Increase (decrease) in deferred inflows of resources	(693,980)	982,364
Increase in other postemployment benefits	77,832	82,300
Total adjustments	<u>(75,453)</u>	<u>(111,715)</u>
Net cash used for operating activities	<u>\$ (871,700)</u>	<u>(895,600)</u>

See notes to financial statements.

Sample Hospital

Notes to Financial Statements

June 30, 2019 and 2018

(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 Position displays the Hospital's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

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

Restricted net position:

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

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

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

C. Measurement Focus and Basis of Accounting

Measurement focus 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.

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, deferred outflows of resources, liabilities and deferred inflows of resources 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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

Cash, Cash Equivalents and Investments – 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 lives for equipment range from ten to thirty years.

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

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 reported as a deferred inflow of resources 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, 2019.

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

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the Sample Hospital's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

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

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 as 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, Cash Equivalents and Investments

The Hospital's deposits in banks at June 30, 2019 and 2018 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

At June 30, 2019 and June 30, 2018, the Hospital had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Bonds, June 30, 2019	\$ 217,700	January 2020
U.S. Treasury Bonds, June 30, 2018	228,000	November 2019

The Hospital uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurements for the U.S. Treasury Bonds was determined using the last sales price at current exchange rates. (Level 1 inputs)

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, 2019. At June 30, 2018, 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, 2019.

(4) Capital Assets

Capital assets activity for the years ended June 30, 2019 and 2018 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Year ended June 30, 2019:				
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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Year ended June 30, 2018:				
Capital assets not being depreciated/amortized:				
Land	\$ 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, 2019, the Hospital entered into a construction contract totaling approximately \$85,000 to remodel existing laboratory facilities. At June 30, 2019, \$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) Long-Term Liabilities

A summary of changes in long-term liabilities for the years ended June 30, 2019 and 2018 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Year ended June 30, 2019:					
Bonds payable	\$ 621,000	-	21,000	600,000	16,000
Note payable	90,000	-	-	90,000	9,000
Net pension liability	2,343,057	549,381	-	2,892,438	-
Total OPEB liability	246,900	77,832	-	324,732	-
Total	\$3,300,957	627,213	21,000	3,907,170	25,000
Year ended June 30, 2018:					
Bonds payable	\$ 636,000	-	15,000	621,000	21,000
Note payable	-	90,000	-	90,000	-
Net pension liability	3,302,900	-	959,843	2,343,057	-
Total OPEB liability	145,000	101,900	-	246,900	-
Total	\$4,083,900	191,900	974,843	3,300,957	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 2013 and the proceeds provided financing for building improvements. The bonds are payable solely from revenue from operations of the Hospital and are payable through 2039. Annual principal and interest payments on the bonds are expected to require less than 17% of the change in net position. 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 position (plus depreciation expense) were \$55,000 and \$382,753, respectively. The details of the Hospital's bonded indebtedness are as follows:

Year	Interest	Principal	Interest	Total
Ending June 30,	Rates			
2020	5.50%	\$ 16,000	33,000	49,000
2021	5.50	17,000	32,120	49,120
2022	5.50	18,000	31,185	49,185
2023	5.75	20,000	31,568	51,568
2024	5.75	22,000	30,418	52,418
2025-2029	5.75-6.50	131,000	137,208	268,208
2030-2034	6.25-6.50	171,000	99,143	270,143
2035-2039	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, 2021.

Direct borrowings and direct placements – Note Payable

On June 28, 2018, the Hospital borrowed \$90,000 from the Sample Bank to secure equipment purchased. The loan bears interest at 7.5% per annum and matures on June 30, 2028.

The Hospital's bank loan is secured by the equipment purchased and must be returned if the bank loan is not paid.

A summary of the annual direct borrowings and direct placements principal and interest requirements to maturity by year is as follows:

Year	Interest	Principal	Interest	Total
Ending June 30,	Rates			
2020	7.50%	\$ 9,000	6,750	15,750
2021	7.50	9,000	6,075	15,075
2022	7.50	9,000	5,400	14,400
2023	7.50	9,000	4,725	13,725
2024	7.50	9,000	4,050	13,050
2025-2029	7.50	45,000	10,125	55,125
Total		\$ 90,000	37,125	127,125

(7) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

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

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

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2019 and 2018, pursuant to the required rate, Regular members contributed 6.29% and 5.95%, respectively, of covered payroll and the Hospital contributed 9.44% and 8.93%, respectively, of covered payroll for a total rate of 15.73% and 14.88%, respectively. Protective occupation members contributed 6.81% and 6.56%, respectively, of covered payroll and the Hospital contributed 10.21% and 9.84%, respectively, of covered payroll, for a total rate of 17.02% and 16.40%, respectively.

The Hospital’s contributions to IPERS for the years ended June 30, 2019 and June 30, 2018 were \$394,260 and \$389,450, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019 and June 30, 2018, the Hospital reported a liability of \$2,892,438 and 2,343,057, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital’s proportion of the net pension liability was based on the Hospital’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the Hospital’s proportion was .058546%, which was a decrease of .000534% from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and June 30, 2018, the Hospital recognized pension expense of \$265,385 and \$257,300, respectively. The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,186	6,163	42,195	125,364
Changes of assumptions	80,519	95	85,725	-
Net difference between projected and actual earnings on IPERS' investments	-	257,725	-	657,425
Changes in proportion and differences between Hospital contributions and the Hospital's proportionate share of contributions	52,377	24,401	69,696	202,013
Hospital contributions subsequent to the measurement date	394,260	-	389,450	-
Total	<u>\$ 571,342</u>	<u>288,384</u>	<u>587,066</u>	<u>984,802</u>

Deferred outflows of resources related to pensions of \$394,260 and \$389,450 represent the amount the Hospital contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2020 and June 30, 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	2019 Amount	2018 Amount
2020	\$ (79,947)	(279,576)
2021	(79,947)	(219,325)
2022	(79,947)	(229,325)
2023	128,642	(61,650)
2024	(103)	2,690
Total	<u>\$ (111,302)</u>	<u>(787,186)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Hospital's proportionate share of the net pension liability - June 30, 2019	\$ 5,213,116	2,892,438	933,808
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Hospital's proportionate share of the net pension liability - June 30, 2018	\$ 4,591,872	2,343,057	729,652

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – At June 30, 2019 and June 30, 2018, the Hospital reported payables to IPERS of \$29,833 and \$26,532, respectively, for legally required Hospital contribute ons and \$19,878 and \$18,742, respectively, for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

(8) Other Postemployment Benefits (OPEB)

Plan Description – The Hospital administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Sample Hospital and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. The following employees were covered by the benefit terms:

	June 30, 2019	June 30, 2018
Inactive employees or beneficiaries currently receiving benefit payments	12	13
Active employees	200	201
Total	212	214

Total OPEB Liability – The Hospital’s total OPEB liability of \$324,732 and \$246,900 was measured as of June 30, 2019 and June 30, 2018, respectively, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation	
(effective June 30, 2019)	3.00% per annum.
Rates of salary increase	3.00% per annum, including
(effective June 30, 2019)	inflation.
Discount rate	3.58% compounded annually,
(effective June 30, 2019)	including inflation.
Healthcare cost trend rate	8.50% initial rate decreasing by .5%
(effective June 30, 2019)	annually to an ultimate rate of 5.00%.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.58% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA RPH-2017 total dataset mortality table fully generational using Scale MP-2017. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	<u>2019</u>	<u>2018</u>
	<u>Total OPEB Liability</u>	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 246,900	231,368
Changes for the year:		
Service cost	15,915	8,478
Interest	5,873	4,147
Differences between expected and actual experiences	75,858	10,102
Changes in assumptions	1,536	2,438
Benefit payments	(21,350)	(9,633)
Net changes	<u>77,832</u>	<u>15,532</u>
Total OPEB liability end of year	<u>\$ 324,732</u>	<u>246,900</u>

Changes of assumptions reflect a change in the discount rate from 4.25% in fiscal year 2017 to 4.50% in fiscal year 2018 and 3.58% in fiscal year 2019.

Sensitivity of the Hospital's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate.

	<u>1%</u>	<u>Discount</u>	<u>1%</u>
	<u>Decrease</u>	<u>Rate</u>	<u>Increase</u>
	<u>(2.58%)</u>	<u>(3.58%)</u>	<u>(4.58%)</u>
Total OPEB liability - June 30, 2019	\$ 347,463	324,732	302,001

	<u>1%</u>	<u>Discount</u>	<u>1%</u>
	<u>Decrease</u>	<u>Rate</u>	<u>Increase</u>
	<u>(3.50%)</u>	<u>(4.50%)</u>	<u>(5.50%)</u>
Total OPEB liability - June 30, 2018	\$ 269,631	246,900	224,169

Sensitivity of the Hospital's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.50%) or 1% higher (9.50%) than the current healthcare cost trend rates.

	Healthcare		
	1% Decrease (7.00%)	Cost Trend Rate (8.00%)	1% Increase (9.00%)
Total OPEB liability - June 30, 2019	\$ 285,000	324,732	363,700

	Healthcare		
	1% Decrease (7.50%)	Cost Trend Rate (8.50%)	1% Increase (9.50%)
Total OPEB liability - June 30, 2018	\$ 207,168	246,900	286,632

OPEB Expense and Deferred Outflows of Resources Related to OPEB – For the year ended June 30, 2019, the Hospital recognized OPEB expense of \$31,710. At June 30, 2019, the Hospital reported deferred outflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources - June 30, 2019	Deferred Outflows of Resources - June 30, 2018
Differences between expected and actual experience	\$ 47,429	\$ 1,541
Changes in assumptions	1,281	897
Total	<u>\$ 48,710</u>	<u>\$ 2,438</u>

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30,	2019 Amount	2018 Amount
2019	\$ -	397
2020	7,526	397
2021	7,526	397
2022	7,526	397
2023	7,526	397
2024	7,526	397
Thereafter	11,080	56
	<u>\$ 48,710</u>	<u>2,438</u>

(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 Position. 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 years ended June 30, 2019 and June 30, 2018, the Hospital capitalized \$1,422 and \$1,414, respectively, of interest cost using a capitalization rate of 6% and incurred total interest cost of \$38,122 and \$37,292, respectively.

(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, 2020 and June 30, 2025. 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, 2019 and June 30, 2018 is as follows:

Year Ending June 30,	June 30,	
	2019	2018
2020	\$ -	50,800
2021	47,100	47,100
2022	36,700	36,700
2023	22,600	22,600
2024	6,000	6,000
2025	1,000	1,000
Total	<u>\$ 113,400</u>	<u>164,200</u>

Total rental expense for the year ended June 30, 2019 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, 2018 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 2018. 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.

(13) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

Sample Hospital

Required Supplementary Information

Sample Hospital

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

Required Supplementary Information

Year ended June 30, 2019

	Actual Accrual Basis	Accrual Adjustments	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	2,693,300	(372,450)	2,320,850	2,385,000	2,400,000	(79,150)
	2,905,300	(373,450)	2,531,850	2,588,000	2,603,000	(71,150)
Expenses/disbursements	2,605,947	(92,547)	2,513,400	2,670,000	2,685,000	171,600
Net	299,353	(280,903)	18,450	(82,000)	(82,000)	100,450
Balance beginning of year	(1,545,755)	2,270,105	724,350	782,000	782,000	(57,650)
Balance end of year	\$ (1,246,402)	1,989,202	742,800	700,000	700,000	42,800

See accompanying independent auditor's report.

Sample Hospital

Notes to Required Supplementary Information -
Budgetary Reporting

June 30, 2019

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 Auditor. 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, 2019, the Hospital's disbursements did not exceed the amount budgeted.

Sample Hospital

Sample Hospital

Schedule of the Hospital's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Five Year*
(In Thousands)

Required Supplementary Information

	2019	2018	2017	2016	2015
Hospital's proportion of the net pension liability	0.058546%	0.059080%	0.059162%	0.052475%	0.051362%
Hospital's proportionate share of the net pension liability	\$ 2,892	2,343	2,150	2,097	1,856
Hospital's covered payroll	\$ 4,303	4,213	3,711	3,356	2,800
Hospital's proportionate share of the net pension liability as a percentage of its covered payroll	67.21%	55.61%	57.94%	62.49%	66.29%
Plan fiduciary net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

Sample Hospital

Schedule of Hospital Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 394	389	379	334
Contributions in relation to the statutorily required contribution	<u>(394)</u>	<u>(389)</u>	<u>(379)</u>	<u>(334)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Hospital's covered payroll	\$ 4,260	4,303	4,213	3,711
Contributions as a percentage of covered payroll	9.25%	9.00%	9.00%	9.00%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
302	252	234	217	201	185
(302)	(252)	(234)	(217)	(201)	(185)
-	-	-	-	-	-
3,356	2,800	2,896	3,100	3,000	2,891
9.00%	9.00%	8.08%	7.00%	6.70%	6.40%

Sample Hospital

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

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

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2017. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

Sample Hospital

Schedule of Changes in the Hospital's
Total OPEB Liability and Related Ratios

For the Last Two Years
Required Supplementary Information

	2019	2018
Service cost	\$ 15,915	8,478
Interest cost	5,873	4,147
Difference between expected and actual experiences	75,858	10,102
Changes in assumptions	1,536	2,438
Benefit payments	(21,350)	(9,633)
Net change in total OPEB liability	77,832	15,532
Total OPEB liability beginning of year, as restated	246,900	231,368
Total OPEB liability end of year	\$ 324,732	246,900
Covered-employee payroll	\$ 4,421,746	4,235,045
Total OPEB liability as a percentage of covered-employee payroll	7.3%	5.8%

See accompanying independent auditor's report.

Notes to Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2019	3.58%
Year ended June 30, 2018	4.50%
Year ended June 30, 2017	4.25%

Sample Hospital

Supplementary Information

Schedule 1

Sample Hospital

Patient Service Revenue

Years ended June 30, 2019 and 2018

	2019			2018
	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.

Sample Hospital

Adjustments to Patient Service Revenue/Other Operating Revenues

Years ended June 30, 2019 and 2018

	2019	2018
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	<u>\$ (82,500)</u>	<u>(94,300)</u>
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 position released from restrictions	5,000	1,000
Total	<u>\$ 18,700</u>	<u>27,100</u>

See accompanying independent auditor's report.

Schedule 3

Sample Hospital

Nursing Service Expenses

Years ended June 30, 2019 and 2018

	2019	2018
Administrative:		
Salaries and benefits	\$ 156,786	137,868
Commuting reimbursement	4,496	4,274
Supplies and other expense	840	1,238
	<u>162,122</u>	<u>143,380</u>
Medical and surgical:		
Salaries and benefits	823,493	796,201
Supplies and other expense	10,460	14,070
	<u>833,953</u>	<u>810,271</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, 2019 and 2018

	2019	2018
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>\$ 1,120,687</u>	<u>1,081,140</u>

See accompanying independent auditor's report.

Schedule 4

Sample Hospital

Other Professional Service Expenses

Years ended June 30, 2019 and 2018

	2019	2018
Administrative:		
Salaries and benefits	\$ 41,507	40,052
Professional fees	20,989	19,319
Blood	12,691	11,434
Supplies and other expense	144,840	93,244
	<u>220,027</u>	<u>164,049</u>
Electrocardiology:		
Salaries and benefits	2,649	2,711
Professional fees	5,225	7,323
Supplies and other expense	5,267	4,545
	<u>13,141</u>	<u>14,579</u>
Radiology:		
Salaries and benefits	27,808	22,813
Professional fees	53,200	52,999
Supplies and other expense	24,706	21,209
	<u>105,714</u>	<u>97,021</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	33,284	31,359
Professional fees	2,531	3,875
Supplies and other expense	6,535	6,526
	<u>42,350</u>	<u>41,760</u>

Sample Hospital

Other Professional Service Expenses

Years ended June 30, 2019 and 2018

	2019	2018
Inhalation therapy:		
Salaries and benefits	36,341	31,608
Professional fees	2,016	-
Supplies and other expense	17,891	9,733
	<u>56,248</u>	<u>41,341</u>
Physical therapy:		
Professional fees	138,064	132,089
Supplies and other expense	3,149	3,035
	<u>141,213</u>	<u>135,124</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	12,170
Supplies and other expense	1,553	1,017
	<u>17,366</u>	<u>13,187</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>\$ 658,794</u>	<u>576,503</u>

See accompanying independent auditor's report.

Schedule 5

Sample Hospital

General Service Expenses

Years ended June 30, 2019 and 2018

	2019	2018
Dietary:		
Salaries and benefits	\$ 90,926	75,801
Professional fees	2,080	2,120
Blood	44,938	58,420
Supplies and other expense	4,683	2,938
	<u>142,627</u>	<u>139,279</u>
Operation of plant:		
Salaries and benefits	61,215	54,408
Repair and maintenance	4,350	8,545
Supplies	3,072	3,887
Electricity	21,799	22,410
Gas	15,513	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>117,009</u>	<u>117,359</u>
Housekeeping:		
Salaries and benefits	52,377	43,841
Supplies	7,354	7,025
Other expense	764	806
	<u>60,495</u>	<u>51,672</u>
Laundry and linen:		
Salaries and benefits	40,124	31,463
Supplies	3,612	3,128
Other expense	2,482	4,212
	<u>46,218</u>	<u>38,803</u>
Total	<u>\$ 366,349</u>	<u>347,113</u>

See accompanying independent auditor's report.

Sample Hospital

Fiscal and Administrative Service Expenses

Years ended June 30, 2019 and 2018

	2019	2018
Accounting:		
Salaries and benefits	\$ 53,198	47,982
Auditing	6,218	5,844
Supplies and forms	5,602	4,973
Other expense	3,185	7,343
	<u>68,203</u>	<u>66,142</u>
Personnel:		
Salaries and benefits	13,571	7,358
Supplies and other expense	628	494
	<u>14,199</u>	<u>7,852</u>
Central stores:		
Salaries and benefits	24,192	19,642
Cost of supplies sold	5,640	4,470
Supplies and other expense	1,023	1,250
	<u>30,855</u>	<u>25,362</u>
Administration:		
Salaries and benefits	72,390	67,306
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>101,995</u>	<u>95,645</u>
Education:		
Salaries and benefits	2,536	3,568
Supplies and other expense	858	800
	<u>3,394</u>	<u>4,368</u>
Employee welfare:		
FICA and IPERS	108,752	88,683
Other employee benefits	3,557	2,286
	<u>112,309</u>	<u>90,969</u>
Insurance and taxes:		
Liability and property insurance	7,253	12,186
Use and property tax	9	5
	<u>7,262</u>	<u>12,191</u>
Total	<u>\$ 338,217</u>	<u>302,529</u>

See accompanying independent auditor's report.

Schedule 7

Sample Hospital

Patient Receivables and Allowance
for Doubtful Accounts

June 30, 2019 and 2018

Analysis of Aging				
Days Since Discharge	2019		2018	
	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
	356,000	82.35	337,000	85.68
In hospital	63,000	15.04	58,000	14.68
	419,000	<u>100.00%</u>	395,000	<u>100.00%</u>
Allowance for doubtful accounts	70,000		60,000	
Total	<u>\$ 349,000</u>		<u>\$ 335,000</u>	

Allowance for Doubtful Accounts		
	Year ended June 30,	
	2019	2018
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
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2019

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Health and Human Services:			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program			
	93.912		\$ 45,000
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Public Health:			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children			
	10.557	5888A100	185,000
WIC Special Supplemental Nutrition Program for Women, Infants, and Children			
	10.557	5889A100	355,000
			<u>540,000</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Family Planning_Services			
	93.217	5888FP100	61,000
Family Planning_Services			
	93.217	5889FP100	109,000
			<u>170,000</u>
Total indirect			710,000
Total			<u>\$ 755,000</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Sample Hospital under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sample Hospital, it is not intended to and does not present the financial position, changes in financial position or cash flows of Sample Hospital.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – Sample Hospital has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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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 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, the financial statements of Sample Hospital as of and for the years ended June 30, 2019 and 2018, and the related Notes to Financial Statements, and have issued our report thereon dated September 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Hospital's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Sample Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and 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 described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-19 and II-B-19 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-19 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, 2019 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 the Findings

Sample Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sample Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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.

Marlys K. Gaston, CPA
Deputy Auditor of State

September 17, 2019



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Rob Sand
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Board of Trustees
of Sample Hospital:

Report on Compliance for Each Major Federal Program

We have audited Sample Hospital's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2019. Sample Hospital's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Sample Hospital's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of Sample Hospital's compliance.

Opinion on the Major Federal Program

In our opinion, Sample Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

The management of Sample Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sample Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A deficiency in 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-19 to be a material weakness.

Sample Hospital's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Sample Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marlys K. Gaston, CPA
Deputy Auditor of State

September 17, 2019

Sample Hospital
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

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

- (a) An unmodified opinion was issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (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 unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.557 – WIC Special Supplemental Nutrition Program for Women, Infants and Children.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Sample Hospital did not qualify as a low-risk auditee.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-19 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Hospital's financial statements.

Condition – Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued.

Cause – The Hospital has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Hospital's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Hospital should review its procedures to obtain the maximum internal control possible under the circumstances, utilizing currently available staff.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

II-B-19 Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Hospital's financial statements.

Condition - Material amounts of receivables, payables and capital asset additions were not recorded in the Hospital's financial statements. Adjustments were subsequently made by the Hospital to properly include these amounts in the financial statements.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Cause – Hospital policies do not require and procedures have not been established to require independent review of year end cut-off transactions to ensure the Hospital’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Hospital employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Hospital’s financial statements were necessary.

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 double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion – Response accepted.

II-C-19 Disbursement Approval

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for disbursements. Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation.

Condition – Two disbursements tested had no evidence of approval.

Cause – The Hospital has not implemented procedures to ensure all claims are properly approved.

Effect – Lack of proper approval could result in unauthorized or improper transactions and the opportunity for misappropriation.

Recommendation – The Hospital should ensure all expenditures are properly approved.

Response – We will ensure all expenditures are properly approved.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sample Hospital
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

Pass-Through Entity Identifying Number: 5888A100 and 5889A100

Federal Award Year: 2018 and 2019

Prior Year Finding Number: III-A-18

U.S. Department of Agriculture

Passed through the Iowa Department of Public Health

III-A-19 Segregation of Duties – The Hospital did not properly segregate collecting,
(2019-001) depositing and posting functions for revenues, including those related to
 federal programs. See item II-A-19.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-19 Certified Budget – Disbursements during the year ended June 30, 2019 did not exceed the amount budgeted.

IV-B-19 Questionable Expenses – In accordance with Article III, Section 31, of the Iowa Constitution and an Attorney General opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain expenses were noted which 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 expenses were coded to the Administration Account. These expenses are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
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 pæ	300
Food Is Us	Meet and cheese tray for Doctor's Day	125
Cards Incorporated	Cards, gifts, prizes, miscellaneous	700
Total		<u>\$ 15,195</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 public purpose documentation. Expenses of this nature, if allowed in the future, should be clearly identified in the accounting records.

Response – We will establish written policies, including appropriate taxation, and document the public purpose in the future.

Conclusion – Response accepted.

IV-C-19 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

Sample Hospital

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

IV-D-19 Business Transactions – Business transactions between the Hospital and Hospital officials are detailed as follows:

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 of transactions between a Hospital Trustee or a Hospital Trustee’s spouse and the Hospital.

IV-E-19 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-F-19 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-19 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:

Marlys K. Gaston, CPA, Deputy Auditor of State
Rhonda M. Greene, CPA, Manager
James L. Smith, CPA, Senior Auditor
Addison R. Schmitz, CPA, Assistant Auditor