

AMERICAN LEGION FAMILY
HOSPITAL ASSOCIATION

Years Ended July 31, 2007 and 2006

Ness, Waller, Pearson & Co., Ltd.

Alexandria, Minnesota

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
American Legion Family Hospital Association
State Veterans Service Building
20 West 12th Street, Room 300A
St. Paul, Minnesota 55155

We have audited the accompanying statement of financial position of American Legion Family Hospital Association (a nonprofit corporation) as of July 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequate accounting records for part of the current year, we were unable to form an opinion regarding the amount of medical assistance expense for the year ended July 31, 2007.


In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary in the statement of activities and cash flows had the accounting records been adequate for us to satisfy ourselves about the medical assistance expense recorded in the financial statements, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the American Legion Family Hospital Association as of July 31, 2007, and the results of its operations and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The July 31, 2006, financial statements were reviewed by other accountants, and their report dated September 28, 2006, stated they were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Ness Waller Pearson & Co. Ltd.

October 17, 2007

MEMBER OF • PRIVATE COMPANIES PRACTICE SECTION OF • AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

 THE CPA. NEVER UNDERESTIMATE THE VALUE. SM

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2007 AND 2006**

	<u>Audited 2007</u>	<u>Reviewed 2006</u>
ASSETS		
CURRENT ASSETS		
Cash in Checking	\$ 11,159	\$ 11,570
Certificates of Deposit	<u>225,000</u>	<u>235,000</u>
Total Assets	<u>\$ 236,159</u>	<u>\$ 246,570</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued Payroll Taxes	\$ 401	\$ 427
NET ASSETS		
Unrestricted	<u>235,758</u>	<u>246,143</u>
Total Liabilities and Net Assets	<u>\$ 236,159</u>	<u>\$ 246,570</u>

See Accompanying Notes to Financial Statements

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JULY 31, 2007 AND 2006**

	<u>Audited</u> <u>2007</u>	<u>Reviewed</u> <u>2006</u>
REVENUES		
Dues		
American Legion Posts	\$ 25,699	\$ 26,205
American Legion Auxiliaries	12,400	12,823
Sons of the American Legion	2,436	2,609
Donations		
Districts	27,010	60,985
Other	2,253	9,554
Interest Income	11,624	7,885
Refunds and Miscellaneous	<u>1,154</u>	<u>50</u>
 Total Revenues	 <u>\$ 82,576</u>	 <u>\$ 120,111</u>
EXPENSES		
Salaries	\$ 12,000	\$ 12,000
Payroll Tax	982	1,174
Medical Assistance	62,285	69,712
Blood Pressure Testing	500	1,521
Board and Committee Expenses	10,100	6,854
Professional Fees	3,688	1,100
Promotion	576	1,428
Postage and Phone	927	1,202
Supplies and Miscellaneous	<u>1,903</u>	<u>1,855</u>
 Total Expenses	 <u>\$ 92,961</u>	 <u>\$ 96,846</u>
 CHANGE IN NET ASSETS	 \$ (10,385)	 \$ 23,265
 NET ASSETS - beginning of year	 <u>246,143</u>	 <u>222,878</u>
 NET ASSETS - end of year	 <u>\$ 235,758</u>	 <u>\$ 246,143</u>

See Accompanying Notes to Financial Statements

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006**

	<u>Audited</u> <u>2007</u>	<u>Reviewed</u> <u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from dues, donations and others	\$ 70,952	\$ 112,226
Cash paid to medical facilities, employees and others	(92,987)	(96,846)
Interest received	<u>11,624</u>	<u>7,885</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,411)</u>	<u>\$ 23,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment to purchase certificate of deposit		\$ (15,000)
Receipt from sale of certificate of deposit	<u>\$ 10,000</u>	<u> </u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 10,000</u>	<u>\$ (15,000)</u>
NET INCREASE (DECREASE) IN CASH	\$ (411)	\$ 8,265
CASH AND CASH EQUIVALENTS - beginning of year	<u>11,570</u>	<u>3,305</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 11,159</u></u>	<u><u>\$ 11,570</u></u>

See Accompanying Notes to Financial Statements

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006**

	<u>Audited</u> <u>2007</u>	<u>Reviewed</u> <u>2006</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (10,385)	\$ 23,265
Adjustments to Reconcile Change in Net Assets to Net Cash		
Change in assets and liabilities:		
Increase (decrease) in accrued payroll taxes	\$ (26)	_____
Total Adjustments	\$ (26)	\$ 0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (10,411)</u>	<u>\$ 23,265</u>

See Accompanying Notes to Financial Statements

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006**

NOTE 1 - ORGANIZATIONAL PURPOSE

American Legion Family Hospital Association was incorporated in 1922 for the primary purpose of rendering medical assistance in time of sickness and in death to its members and their dependents provided they have been a member in good standing for twelve months prior to their application for benefits. The Association is primarily supported from membership dues to American Legion Department of MN, American Legion Auxiliary Department of MN, and the Sons of the American Legion Department of MN. The Association also receives donations from various posts and units within Minnesota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis - The Association's policy is to prepare its financial statements on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation - The Association reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporary restricted net assets and permanently restricted net assets. All of the Association's net assets are unrestricted. In addition, the Association is required to present a statement of cash flows.

Certificates of Deposit - The Association carries its certificates of deposit at cost which approximates fair value.

Cash Equivalents - For purposes of the statement of cash flows, the Association considers all temporary cash investments with a maturity of three months or less to be cash equivalents.

Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Income Taxes - The Organization has a tax exempt status under Section 501(a) as an organization described in 501(c)(3) of the Internal Revenue Service and Minnesota Statute. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Association maintains its certificates of deposit at one financial institution. Certificates of deposit at this bank are insured by the Federal Deposit Insurance Corporation for up to \$100,000. Amounts in excess of insured limits at July 31, 2007 and 2006 were \$125,000 and \$135,000, respectively.

NOTE 4 - CONCENTRATION IN SUPPORT RECEIVED

The Association receives the majority of its support from membership dues and donations from the American Legion Department of MN, American Legion Auxiliary Department of MN, and the Sons of the American Legion Department of MN. In the event that this support were to be eliminated, it is likely that the Association would need to reduce its current operations.

**AMERICAN LEGION FAMILY HOSPITAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006**

NOTE 5 - CONTINGENCIES

During the past year the American Legion Department of Minnesota raised concerns regarding the Association's operations that, in the opinion of the trustees of the Association, were completely without merit. The potential for a lawsuit to be initiated by the American Legion Department of Minnesota is estimated to be slight; however, the potential does exist. In the event a lawsuit is commenced, the Association would most likely vigorously defend the lawsuit. It is impossible to estimate the amount or range of potential loss at this time.

NOTE 6 - FINANCIAL STATEMENT RECLASSIFICATION

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements. These changes do not affect net assets or changes in net assets.

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October 17, 2007

To the Board of Trustees
American Legion Family Hospital Association
St. Paul, Minnesota

In planning and performing our audit of the financial statements of American Legion Family Hospital Association as of and for the year ended July 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered American Legion Family Hospital Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be a significant deficiency in internal control:

While auditing the Association's medical care bills we discovered the Association was reimbursing members for transportation to and from the hospital and for dental work. The Association's financial assistance policy specifically excludes reimbursement for transportation to and from the hospital and for dental work. The Association should abide by its financial assistance policy or amend it.

When scanning member applications for financial assistance, we did not see where the application had been signed and acknowledged before a Notary Public. The Association's financial assistance policy states that the applicant should have the application signed and acknowledged before a Notary Public. The Association should abide by its financial assistance policy or amend it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control. We believe that the following deficiencies constitute material weaknesses:

While auditing the Association's medical assistance claims, we discovered the Association had destroyed supporting documentation. This was done for confidentiality purposes. However, without these records, we were unable to substantiate this expense account. The Association needs to develop a retention policy so records can be accessed for a reasonable amount of time.

We were informed that checks which require dual signatures were sometimes signed in advance by both check signers. This practice should be stopped to prevent the potential writing of fraudulent checks.

The Association has a limited number of office personnel which prevents proper segregation of accounting functions necessary for an effective internal control structure. This is not unusual in an organization of your size, but the Board should be constantly aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

The Association has not prepared its annual financial statements with applicable footnotes. The Association's management is responsible for the preparation of financial statements and footnotes in accordance with generally accepted accounting principles.

This communication is intended solely for the information and use of management, Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

New. Waller Pearson & Co. PA