

**Marengo Memorial Hospital
Marengo, Iowa**

FINANCIAL REPORT

June 30, 2007

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
FINANCIAL STATEMENTS	
Balance sheets	10-11
Statements of revenues, expenses, and changes in fund equity	12
Statements of cash flows	13-14
Notes to financial statements	15-22
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	23
SUPPLEMENTARY INFORMATION, FINANCIAL	
Analysis of patient receivables	24
Analysis of allowance for bad debts	24
Patient service revenue	25
Provisions for contractual adjustments and bad debts	26
Other revenue	26
Expenses	27
Comparative statistics	28
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	29-30
SCHEDULE OF FINDINGS	31-32

**Marengo Memorial Hospital
OFFICIALS
June 30, 2007**

BOARD OF TRUSTEES

Officers

Charles Merritt, Chair
Don Kirkpatrick, Vice Chair
Marvin Carney, Secretary-Treasurer

Expiration of term

March 1, 2010
March 1, 2010
March 1, 2009

Members

Myrna Curtis
Susan Davis
John Kloster
Janice Meier

March 1, 2008
March 1, 2009
March 1, 2008
March 1, 2008

CHIEF EXECUTIVE OFFICER

Genice Maroc

CHIEF FINANCIAL OFFICER

Nancy Kohrt

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Marengo Memorial Hospital
Marengo, Iowa

We have audited the accompanying balance sheets of Marengo Memorial Hospital, a component unit of the City of Marengo, Iowa, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marengo Memorial Hospital as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2007, on our consideration of Marengo Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2007

Marengo Memorial Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Marengo Memorial Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Hospital report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Hospital's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Hospital operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by \$2,903,090 to \$18,743,486
- Total noncurrent assets whose use is limited increased by \$400,019 to \$2,990,260
- Total property and equipment increased by \$619,338 to \$10,571,304
- Total fund equity increased by \$2,552,414 to \$7,812,969
- Total long-term debt decreased by \$215,000 to \$9,480,000
- Net patient service revenue increased by \$4,642,592, or 46% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status
- Expenses increased by \$3,754,723, or 46% to \$11,958,229

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Hospital and the changes in them. The Hospital's fund equity, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's fund equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Hospital's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 4,917,512	\$ 3,013,889	\$ 3,760,388
Assets whose use is limited	2,990,260	2,590,241	1,369,276
Property and equipment	10,571,304	9,951,966	6,865,873
Other asset	<u>264,410</u>	<u>284,300</u>	<u>203,700</u>
 Total assets	 <u>\$18,743,486</u>	 <u>\$15,840,396</u>	 <u>\$12,199,237</u>
Current liabilities	\$ 1,670,517	\$ 1,099,841	\$ 3,048,150
Long-term debt, less current maturities	<u>9,260,000</u>	<u>9,480,000</u>	<u>5,695,000</u>
 Total liabilities	 <u>\$10,930,517</u>	 <u>\$10,579,841</u>	 <u>\$ 8,743,150</u>
Invested in capital assets, net of related debt	\$ 1,091,304	\$ 256,966	\$ 965,873
Restricted	825,111	821,538	566,223
Unrestricted	<u>5,896,554</u>	<u>4,182,051</u>	<u>1,923,991</u>
 Total fund equity	 <u>\$ 7,812,969</u>	 <u>\$ 5,260,555</u>	 <u>\$ 3,456,087</u>

As depicted in Table 1, total assets increased significantly in fiscal year 2007 to \$18,743,486. The change in total assets results primarily from continuing operating income. During fiscal year 2007, the Hospital finalized a construction project and capitalized additional costs of \$1,325,053.

A summary of the Hospital's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2007	2006	2005
Net patient service revenue	\$14,631,753	\$ 9,989,161	\$6,862,386
Other revenue	75,819	98,517	98,678
Total operating revenue	<u>14,707,572</u>	<u>10,087,678</u>	<u>6,961,064</u>
Salaries	5,561,546	4,107,402	3,397,692
Supplies and expenses	5,690,968	3,755,833	2,724,590
Provision for depreciation	705,715	340,271	61,844
Total expenses	<u>11,958,229</u>	<u>8,203,506</u>	<u>6,184,126</u>
Operating income	<u>2,749,343</u>	<u>1,884,172</u>	<u>776,938</u>
City taxes	22,732	55,373	22,570
Ambulance subsidy	118,162	113,050	91,601
Investment income	82,689	67,539	43,497
Unrestricted contributions	-	940	25,973
Interest and amortization expense	(502,398)	(264,230)	(15,343)
Transfer from (to) related foundation	81,886	(52,376)	(52,360)
Total nonoperating gains (losses)	<u>(196,929)</u>	<u>(79,704)</u>	<u>115,938</u>
Change in fund equity	2,552,414	1,804,468	892,876
Total fund equity, beginning	<u>5,260,555</u>	<u>3,456,087</u>	<u>2,563,211</u>
Total fund equity, ending	<u>\$ 7,812,969</u>	<u>\$ 5,260,555</u>	<u>\$3,456,087</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2007 and 2006.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Acute discharges for fiscal year 2007 were 142 compared to 90 in fiscal year 2006. Average length of stay decreased slightly as patient days increased to 449 from 294 in 2006. Swing bed, skilled care discharges for fiscal year 2007 were 102 compared to 71 in fiscal year 2006. Average length of stay decreased slightly as patient days increased from 1,801 to 2,553 in 2007. Volume on the outpatient side indicated positive growth in 2007. In 2007, gross outpatient charges increased to \$10,842,284 compared to \$4,956,833 in 2006. Operating room, emergency service, radiology, pharmacy, dialysis and clinic reflected the most significant growth in 2007.

Price Increase: The Hospital did review its charge structure in 2007. Overall, gross patient service revenue increased to \$14,025,809 from \$7,106,620 in 2006.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts increased to \$(692,969) in 2007 from \$(2,883,760) in 2006. This represents an additional 5% reimbursement over standard gross patient charges.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	57%	56%	56%
Medicaid	4	6	5
Commercial insurance	30	30	29
Patients	<u>9</u>	<u>8</u>	<u>10</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$75,819 in 2007 compared to \$98,517 in 2006, primarily due to a decrease in rental income.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 35% to \$5,561,546 in 2007 from \$4,107,402 in 2006. The Hospital departments experiencing the most significant increase in 2007 included operating room, clinic, quality assurance, administration and business office.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 52% to \$5,690,968 in 2007 from \$3,755,833 in 2006. The Hospital departments experiencing the most significant increase in 2007 included operating room, radiology, pharmacy, clinic and group health and life.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$705,715 in 2007 from \$340,271 in 2006.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2007 to \$(196,929) from \$(79,704) in 2006, primarily due to an increase in interest and amortization expense in 2007.

Property and Equipment

At the end of 2007, the Hospital had \$10,571,304 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2007, \$1,325,053 was spent to acquire property and equipment, primarily consisting of final construction and equipment costs related to the Hospital's significant construction project.

A summary of the Hospital's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 144,584	\$ 144,584	\$ 144,584
Land improvements	1,058,440	1,029,842	9,392
Buildings	2,677,393	2,519,218	342,096
Fixed equipment	5,461,637	4,804,196	112,003
Major movable equipment	2,629,022	2,247,288	222,327
Construction in progress	<u>—</u>	<u>—</u>	<u>6,549,973</u>
Subtotal	11,971,076	10,745,128	7,380,375
Less accumulated depreciation	<u>(1,399,772)</u>	<u>(793,162)</u>	<u>(514,502)</u>
Property and equipment	<u>\$10,571,304</u>	<u>\$ 9,951,966</u>	<u>\$6,865,873</u>

Debt Administration

At year end, the Hospital had \$9,480,000 in current and long-term debt related to Hospital Revenue Notes. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Notes represent approximately 90% of the Hospital's total liabilities as of year end.

Contacting Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Marengo Memorial Hospital at (319) 642-5543 or write care of: Chief Financial Officer, Marengo Memorial Hospital, 300 West May Street, Marengo, Iowa 52301.

**Marengo Memorial Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2007	2006
CURRENT ASSETS		
Cash	\$ 827,303	\$ 275,367
Assets whose use is limited, required for current liabilities	259,545	255,270
Patient receivables, less allowances for contractual adjustments and bad debts	3,460,481	2,090,807
Estimated third-party payor settlements	-	200,000
Inventories	270,393	161,031
Prepaid expenses	99,790	31,414
Total current assets	<u>4,917,512</u>	<u>3,013,889</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,666,519	1,279,679
Certificates of deposit	675,723	611,842
U.S. Government Agency securities	82,452	132,452
	<u>2,424,694</u>	<u>2,023,973</u>
Restricted for payment of long-term debt and interest		
Cash	126,136	122,563
Certificates of deposit	192,000	192,000
U.S. Government Agency securities	506,975	506,975
Total assets whose use is limited	<u>3,249,805</u>	<u>2,845,511</u>
Less assets whose use is limited and that are required for current liabilities	<u>259,545</u>	<u>255,270</u>
Noncurrent assets whose use is limited	<u>2,990,260</u>	<u>2,590,241</u>
PROPERTY AND EQUIPMENT	11,971,076	10,745,128
Less accumulated depreciation	<u>1,399,772</u>	<u>793,162</u>
Total property and equipment	<u>10,571,304</u>	<u>9,951,966</u>
OTHER ASSET		
Unamortized financing costs	<u>264,410</u>	<u>284,300</u>
Totals	<u>\$18,743,486</u>	<u>\$15,840,396</u>

	LIABILITIES AND FUND BALANCE	
	June 30	
	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 220,000	\$ 215,000
Accounts payable	368,614	598,184
Accrued employee compensation	292,542	226,628
Payroll taxes and amounts withheld from employees	149,816	5,269
Accrued interest	39,545	40,270
Deferred revenue	-	14,490
Estimated third-party payor settlements	<u>600,000</u>	<u>-</u>
Total current liabilities	<u>1,670,517</u>	<u>1,099,841</u>
LONG-TERM DEBT , less current maturities	<u>9,260,000</u>	<u>9,480,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	1,091,304	256,966
Restricted	825,111	821,538
Unrestricted	<u>5,896,554</u>	<u>4,182,051</u>
Total fund equity	<u>7,812,969</u>	<u>5,260,555</u>
Totals	<u>\$18,743,486</u>	<u>\$15,840,396</u>

Marengo Memorial Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2007 \$459,466; 2006 \$298,423	\$14,631,753	\$ 9,989,161
OTHER REVENUE	<u>75,819</u>	<u>98,517</u>
Total revenue	<u>14,707,572</u>	<u>10,087,678</u>
EXPENSES		
Nursing service	3,691,386	2,582,027
Other professional service	3,840,536	2,119,970
General service	815,205	743,711
Fiscal and administrative service and unassigned expenses	2,905,387	2,417,527
Provision for depreciation	<u>705,715</u>	<u>340,271</u>
Total expenses	<u>11,958,229</u>	<u>8,203,506</u>
Operating income	<u>2,749,343</u>	<u>1,884,172</u>
NONOPERATING GAINS (LOSSES)		
City taxes	22,732	55,373
Ambulance subsidy	118,162	113,050
Investment income	82,689	67,539
Unrestricted contributions	-	940
Interest and amortization expense	(502,398)	(264,230)
Transfer from (to) related foundation	<u>81,886</u>	<u>(52,376)</u>
Total nonoperating gains (losses)	<u>(196,929)</u>	<u>(79,704)</u>
Change in fund equity	2,552,414	1,804,468
TOTAL FUND EQUITY		
Beginning	<u>5,260,555</u>	<u>3,456,087</u>
Ending	<u>\$ 7,812,969</u>	<u>\$ 5,260,555</u>

See Notes to Financial Statements.

**Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,047,589	\$8,312,871
Cash paid to suppliers for goods and services	(5,614,991)	(3,738,918)
Cash paid to employees for services	(5,495,632)	(4,161,975)
Other operating revenue received	75,819	98,517
Net cash provided by operating activities	3,012,785	510,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
City taxes	22,732	55,373
Ambulance subsidy	118,162	113,050
Unrestricted contributions	-	940
Transfer from (to) related foundation	81,886	(52,376)
Net cash provided by noncapital financing activities	222,780	116,987
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	4,000,000
Acquisition of property and equipment	(1,663,791)	(4,103,171)
Principal payments on long-term debt	(215,000)	(205,000)
Interest paid on long-term debt	(483,233)	(458,747)
Net cash (used in) capital and related financing activities	(2,362,024)	(766,918)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	82,689	89,804
Proceeds from maturities of investments	245,992	52,375
Purchase of investments	(259,873)	(23,882)
Net cash provided by investing activities	68,808	118,297
NET INCREASE (DECREASE) IN CASH	942,349	(21,139)
CASH		
Beginning	1,677,609	1,698,748
Ending	\$ 2,619,958	\$1,677,609

See Notes to Financial Statements.

**Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS (continued)**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$2,749,343	\$1,884,172
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	705,715	340,271
Changes in assets and liabilities		
(Increase) in patient receivables	(1,369,674)	(275,156)
(Increase) in inventories	(109,362)	(22,254)
(Increase) in prepaid expenses	(68,376)	(26,688)
Increase in accounts payable, net of amounts for property and equipment	109,168	67,987
Increase (decrease) in accrued employee compensation	65,914	(54,573)
Increase (decrease) in payroll taxes and amounts withheld from employees	144,547	(2,130)
(Decrease) in deferred revenue	(14,490)	(1,134)
(Increase) decrease in estimated third-party payor settlements	<u>800,000</u>	<u>(1,400,000)</u>
Net cash provided by operating activities	<u>\$3,012,785</u>	<u>\$ 510,495</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 827,303	\$ 275,367
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,666,519	1,279,679
Restricted for payment of long-term debt and interest, cash	<u>126,136</u>	<u>122,563</u>
Total per statement of cash flows	<u>\$2,619,958</u>	<u>\$1,677,609</u>

See Notes to Financial Statements.

Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a memorial municipal hospital of the City of Marengo, Iowa, organized under Chapter 37, Code of Iowa, and as such is not subject to taxes on income or property. The Hospital is governed by a seven member Board of Trustees.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. 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. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria. The Hospital is includable as a component unit within the City of Marengo, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

Pursuant to Governmental Accounting Standards Board, GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB, issued on or before November 30, 1989.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities U.S. Government Agency securities	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income from investments is reported as nonoperating gains and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is four to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Revenues, Expenses and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are residents of the City and surrounding areas.

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments, consisting of U.S. Government Agency securities, at June 30, 2007 are as follows:

<u>Maturity</u>	<u>Fair value</u>
August, 2007	\$ 100,000
June, 2008	50,000
August, 2009	99,950
September, 2010	100,000
December, 2010	24,617
August, 2014	150,000
January, 2015	49,875
August, 2015	<u>14,985</u>
Total	<u>\$ 589,427</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in 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.

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Medicare	\$2,042,351	\$ 958,945
Medicaid	455,490	239,891
Commercial insurance	839,236	550,217
Patients	<u>623,404</u>	<u>481,754</u>
Total patient receivables	3,960,481	2,230,807
Less allowances for contractual adjustments and bad debts	<u>500,000</u>	<u>140,000</u>
Net patient receivables	<u>\$3,460,481</u>	<u>\$2,090,807</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2007:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ 122,563	\$ 698,975	\$ 821,538
Transfer from current assets, cash	701,806	-	701,806
Principal and interest payments	<u>(698,233)</u>	<u>-</u>	<u>(698,233)</u>
BALANCE , end of year	<u>\$ 126,136</u>	<u>\$ 698,975</u>	<u>\$ 825,111</u>

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 144,584	\$ -	\$ 144,584	\$ -
Land improvements	1,058,440	86,994	1,029,842	37,862
Buildings	2,677,393	348,824	2,519,218	288,095
Fixed equipment	5,461,637	517,413	4,804,196	219,671
Major movable equipment	<u>2,629,022</u>	<u>446,541</u>	<u>2,247,288</u>	<u>247,534</u>
Totals	<u>\$11,971,076</u>	<u>\$1,399,772</u>	<u>\$10,745,128</u>	<u>\$ 793,162</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 144,584	\$ —	\$ —	\$ 144,584
Land improvements	1,029,842	37,990	9,392	1,058,440
Buildings	2,519,218	167,164	8,989	2,677,393
Fixed equipment	4,804,196	679,357	21,916	5,461,637
Major movable equipment	<u>2,247,288</u>	<u>440,542</u>	<u>58,808</u>	<u>2,629,022</u>
Totals	10,745,128	1,325,053	99,105	11,971,076
Less accumulated depreciation	<u>(793,162)</u>	<u>(705,715)</u>	<u>(99,105)</u>	<u>(1,399,772)</u>
Net property and equipment	<u>\$ 9,951,966</u>	<u>\$ 619,338</u>	<u>\$ —</u>	<u>\$10,571,304</u>

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 144,584	\$ —	\$ —	\$ —	\$ 144,584
Land improvements	9,392	—	1,020,450	—	1,029,842
Buildings	342,096	—	2,181,952	4,830	2,519,218
Fixed equipment	112,003	6,329	4,686,489	625	4,804,196
Major movable equipment	222,327	34,327	2,046,790	56,156	2,247,288
Construction in progress	<u>6,549,973</u>	<u>3,385,708</u>	<u>(9,935,681)</u>	—	—
Totals	7,380,375	3,426,364	—	61,611	10,745,128
Less accumulated depreciation	<u>(514,502)</u>	<u>(340,271)</u>	—	<u>(61,611)</u>	<u>(793,162)</u>
Net property and equipment	<u>\$6,865,873</u>	<u>\$3,086,093</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,951,966</u>

A summary of interest costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Construction period--interest expense	\$ —	\$ 229,917
Less interest earned on proceeds	—	<u>(22,265)</u>
Amount capitalized	<u>\$ —</u>	<u>\$ 207,652</u>

NOTE 6 LONG-TERM DEBT

Long-term debt at June 30, 2007 and 2006 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Hospital Revenue Notes, Series 2005	\$4,000,000	\$4,000,000
Hospital Revenue Notes, Series 2004	<u>5,480,000</u>	<u>5,695,000</u>
Total	9,480,000	9,695,000
Less current maturities	<u>220,000</u>	<u>215,000</u>
Long-term debt, net of current maturities	<u>\$9,260,000</u>	<u>\$9,480,000</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Notes, Series 2005

The Hospital has issued Hospital Revenue Notes, Series 2005 in the original amount of \$4,000,000. The Notes are payable solely from future revenues of the Hospital and are due June 1, 2015. Interest is due each June 1 through June, 2015 at an interest rate of 4.8%. At June 30, 2007, the remaining balance on these Notes is \$4,000,000. In addition, the Notes require a Reserve Fund be maintained at a minimum level of \$192,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2007.

The Notes contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Hospital Revenue Notes, Series 2004

The Hospital has issued Hospital Revenue Notes, Series 2004 in the original amount of \$6,000,000. The Notes are payable solely from future revenues of the Hospital and are due serially each June 1 through 2024, at remaining interest rates ranging from 3.55% to 6.2%. At June 30, 2007, the remaining balance on these Notes is \$5,480,000. In addition, the Notes require a Reserve Fund be maintained at a minimum level of \$506,975.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2007.

The Notes contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Notes</u>		<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2005</u>	<u>Series 2004</u>			
2008	\$ —	\$ 220,000	\$ 220,000	\$ 476,245	\$ 696,245
2009	—	225,000	225,000	468,435	693,435
2010	—	235,000	235,000	459,885	694,885
2011	—	245,000	245,000	450,485	695,485
2012	—	255,000	255,000	440,195	695,195
2013-2017	4,000,000	1,480,000	5,480,000	1,626,730	7,106,730
2018-2022	—	1,900,000	1,900,000	622,925	2,522,925
2023-2024	—	<u>920,000</u>	<u>920,000</u>	<u>86,045</u>	<u>1,006,045</u>
Total	4,000,000	5,480,000	9,480,000	4,630,945	14,110,945
Less current maturities	—	<u>220,000</u>	<u>220,000</u>	<u>476,245</u>	<u>696,245</u>
Total long-term debt	<u>\$4,000,000</u>	<u>\$5,260,000</u>	<u>\$9,260,000</u>	<u>\$4,154,700</u>	<u>\$13,414,700</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Notes, Series 2005	\$4,000,000	\$ —	\$ —	\$4,000,000	\$ —
Hospital Revenue Notes, Series 2004	<u>5,695,000</u>	<u>—</u>	<u>215,000</u>	<u>5,480,000</u>	<u>220,000</u>
Totals	<u>\$9,695,000</u>	<u>\$ —</u>	<u>\$ 215,000</u>	<u>\$9,480,000</u>	<u>\$ 220,000</u>

A summary of changes in long-term debt for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Notes, Series 2005	\$ —	\$4,000,000	\$ —	\$4,000,000	\$ —
Hospital Revenue Notes, Series 2004	<u>5,900,000</u>	<u>—</u>	<u>205,000</u>	<u>5,695,000</u>	<u>215,000</u>
Totals	<u>\$5,900,000</u>	<u>\$4,000,000</u>	<u>\$ 205,000</u>	<u>\$9,695,000</u>	<u>\$ 215,000</u>

NOTE 7 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005.

Other

The Hospital has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined per diem rates.

NOTE 8 MALPRACTICE CLAIMS

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 MALPRACTICE CLAIMS (continued)

Incidents occurring through June 30, 2007 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 9 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$304,834, \$237,734 and \$192,131, respectively, equal to the required contributions for each year.

NOTE 10 RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Marengo Memorial Hospital
Marengo, Iowa

Our report on our audits of the basic financial statements of Marengo Memorial Hospital for June 30, 2007 and 2006 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2007

**Marengo Memorial Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0 - 30 days (includes patients in Hospital at end of year)	\$1,036,836	\$ 432,551	26.18%	19.39%
31 - 60 days	986,847	619,818	24.92	27.78
61 - 90 days	559,219	362,318	14.12	16.24
91 - 120 days	378,340	188,773	9.55	8.46
Over 120 days	<u>999,239</u>	<u>627,347</u>	<u>25.23</u>	<u>28.13</u>
Totals	<u>3,960,481</u>	<u>2,230,807</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	520,000	10,000		
Medicaid	(420,000)	(100,000)		
Other	140,000	40,000		
Bad debts	<u>260,000</u>	<u>190,000</u>		
Total allowances	<u>500,000</u>	<u>140,000</u>		
Totals	<u>\$3,460,481</u>	<u>\$2,090,807</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 40,087</u>	<u>\$ 27,368</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>86</u>	<u>76</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$ 190,000	\$ 120,000		
ADD				
Provision for bad debts	459,466	298,423	3.14%	2.99%
Recoveries of accounts previously written off	<u>32,413</u>	<u>35,709</u>	.22	.36
	681,879	454,132		
DEDUCT				
Accounts written off	<u>421,879</u>	<u>264,132</u>	2.88	2.64
BALANCE , ending	<u>\$ 260,000</u>	<u>\$ 190,000</u>		

Marengo Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2007, with comparative totals for 2006

	2007			2006
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 292,817	\$ -	\$ 292,817	\$ 181,800
Skilled care	1,429,680	-	1,429,680	1,008,560
Intermediate care	153,594	-	153,594	145,152
	<u>1,876,091</u>	<u>-</u>	<u>1,876,091</u>	<u>1,335,512</u>
OTHER NURSING SERVICES				
Observation room	-	77,040	77,040	69,835
Operating room	-	3,327,600	3,327,600	154,512
Emergency service	8,870	1,254,575	1,263,445	993,419
Ambulance	-	808,444	808,444	761,774
	<u>8,870</u>	<u>5,467,659</u>	<u>5,476,529</u>	<u>1,979,540</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	206,707	959,018	1,165,725	828,094
Radiology	133,495	1,613,452	1,746,947	1,426,118
Respiratory therapy	253,394	257,435	510,829	340,832
Pharmacy	472,997	540,944	1,013,941	558,195
Anesthesiology	-	253,936	253,936	13,658
Dialysis	-	694,830	694,830	-
Occupational therapy	82,935	19,988	102,923	110,378
Speech therapy	19,091	6,898	25,989	19,157
Physical therapy	129,945	315,398	445,343	388,944
Clinic	-	712,726	712,726	106,192
	<u>1,298,564</u>	<u>5,374,625</u>	<u>6,673,189</u>	<u>3,791,568</u>
Totals	<u>\$3,183,525</u>	<u>\$10,842,284</u>	14,025,809	7,106,620
Charity care charges forgave, based on established rates			(87,025)	(1,219)
Total gross patient service revenue			<u>13,938,784</u>	<u>7,105,401</u>
Provisions for contractual adjustments and bad debts			<u>692,969</u>	<u>2,883,760</u>
Total net patient service revenue			<u>\$14,631,753</u>	<u>\$9,989,161</u>

Marengo Memorial Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments		
Medicare	\$(1,140,351)	\$(1,400,539)
Medicaid	(866,391)	(2,134,352)
Other adjustments	854,307	352,708
Provision for bad debts	<u>459,466</u>	<u>298,423</u>
 Totals	 <u>\$ (692,969)</u>	 <u>\$ (2,883,760)</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Meals	\$ 6,304	\$ 5,957
Lifeline	22,556	18,150
Rental income		
Medical clinic	-	33,600
Other	9,315	6,458
Miscellaneous	<u>37,644</u>	<u>34,352</u>
 Totals	 <u>\$ 75,819</u>	 <u>\$ 98,517</u>

Marengo Memorial Hospital
EXPENSES
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Adult and pediatric	\$1,282,712	\$ 217,013	\$ 1,499,725	\$1,454,660
Operating room	298,677	790,487	1,089,164	161,540
Emergency service	384,145	218,294	602,439	506,015
Ambulance	465,035	35,023	500,058	459,812
Total nursing service	<u>2,430,569</u>	<u>1,260,817</u>	<u>3,691,386</u>	<u>2,582,027</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	253,063	238,610	491,673	359,007
Radiology	164,800	506,528	671,328	504,324
Respiratory therapy	167,973	74,079	242,052	160,196
Cardiac rehabilitation	34,458	5,938	40,396	371
Pharmacy	28,894	490,719	519,613	318,657
Anesthesiology	-	290,462	290,462	-
Dialysis	92,174	77,736	169,910	33,351
Occupational therapy	-	59,671	59,671	65,072
Speech therapy	-	12,581	12,581	10,289
Physical therapy	-	247,311	247,311	222,284
Clinic	600,172	121,824	721,996	147,954
Health information management	168,401	31,910	200,311	174,972
Social service	69,594	5,890	75,484	72,098
Quality assurance	75,310	22,438	97,748	51,395
Total other professional service	<u>1,654,839</u>	<u>2,185,697</u>	<u>3,840,536</u>	<u>2,119,970</u>
GENERAL SERVICE				
Dietary	161,035	76,453	237,488	204,456
Plant operation	85,819	338,589	424,408	425,951
Housekeeping	103,497	24,173	127,670	96,191
Laundry	-	25,639	25,639	17,113
Total general service	<u>350,351</u>	<u>464,854</u>	<u>815,205</u>	<u>743,711</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	639,450	455,381	1,094,831	982,272
Business office	450,696	37,283	487,979	337,812
Purchasing	35,641	4,110	39,751	31,511
Lifeline	-	29,825	29,825	18,831
Group health and life	-	407,013	407,013	317,312
FICA	-	385,556	385,556	290,387
IPERS	-	304,834	304,834	237,734
Insurance	-	155,598	155,598	201,668
Total fiscal and administrative service and unassigned expenses	<u>1,125,787</u>	<u>1,779,600</u>	<u>2,905,387</u>	<u>2,417,527</u>
PROVISION FOR DEPRECIATION				
	-	705,715	705,715	340,271
Total expenses	<u>\$5,561,546</u>	<u>\$6,396,683</u>	<u>\$11,958,229</u>	<u>\$8,203,506</u>

**Marengo Memorial Hospital
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Adult and pediatric	449	294
Swing bed		
Skilled care	2,553	1,801
Intermediate care	<u>1,219</u>	<u>1,172</u>
Totals	<u>4,221</u>	<u>3,267</u>
DISCHARGES		
Adult and pediatric	142	90
Swing bed		
Skilled care	102	71
Intermediate care	<u>38</u>	<u>25</u>
Totals	<u>282</u>	<u>186</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.16	3.27
Swing bed		
Skilled care	25.03	25.37
Intermediate care	32.08	46.88

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

Board of Trustees
Marengo Memorial Hospital
Marengo, Iowa

We have audited the financial statements of Marengo Memorial Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated August 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting 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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 Hospital'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 Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

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 Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the City of Marengo and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2007

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

07-II-B TRAVEL EXPENSES

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

07-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and Hospital officials and/or employees.

07-II-D BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

07-II-E DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.