

**Marengo Memorial Hospital
Marengo, Iowa**

FINANCIAL REPORT

June 30, 2008

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**Marengo Memorial Hospital
OFFICIALS
June 30, 2008**

BOARD OF TRUSTEES

Officers

Susan Davis, Chair
John Kloster, Vice Chair
Don Kirkpatrick, Secretary-Treasurer

Expiration of term

March 1, 2009
March 1, 2011
March 1, 2010

Members

Marvin Carney
Janice Meier
Charles Merritt
Jeffrey Ritchie

March 1, 2009
March 1, 2011
March 1, 2010
March 1, 2011

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, 2008 and 2007, 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, 2008 and 2007, 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 October 10, 2008, 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
October 10, 2008

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, 2008 and 2007. 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 \$1,404,216 to \$20,147,702
- Total noncurrent assets whose use is limited increased by \$822,150 to \$3,812,410
- Total property and equipment increased by \$785,193 to \$11,356,497
- Total fund equity increased by \$346,341 to \$8,159,310
- Total long-term debt increased by \$898,542 to \$10,378,542
- Net patient service revenue decreased by \$60,208, or 1%, to \$14,571,545
- Expenses increased by \$2,221,299, or 19%, to \$14,179,528

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>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 4,734,305	\$ 4,917,512	\$ 3,013,889
Assets whose use is limited	3,812,410	2,990,260	2,590,241
Property and equipment	11,356,497	10,571,304	9,951,966
Other asset	<u>244,490</u>	<u>264,410</u>	<u>284,300</u>
Total assets	<u>\$20,147,702</u>	<u>\$18,743,486</u>	<u>\$15,840,396</u>
Current liabilities	\$ 1,968,393	\$ 1,670,517	\$ 1,099,841
Long-term debt, less current maturities	<u>10,019,999</u>	<u>9,260,000</u>	<u>9,480,000</u>
Total liabilities	<u>\$11,988,392</u>	<u>\$10,930,517</u>	<u>\$10,579,841</u>
Invested in capital assets, net of related debt	\$ 1,921,420	\$ 2,054,689	\$ 1,240,241
Restricted	125,194	126,136	122,563
Unrestricted	<u>6,112,696</u>	<u>5,632,144</u>	<u>3,897,751</u>
Total fund equity	<u>\$ 8,159,310</u>	<u>\$ 7,812,969</u>	<u>\$ 5,260,555</u>

As depicted in Table 1, total assets increased in fiscal year 2008 to \$20,147,702. The change in total assets is primarily from an increase in assets whose use is limited resulting from continuing operating income.

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		
	2008	2007	2006
Net patient service revenue	\$14,571,545	\$14,631,753	\$ 9,989,161
Other revenue	<u>155,547</u>	<u>75,819</u>	<u>98,517</u>
Total operating revenue	<u>14,727,092</u>	<u>14,707,572</u>	<u>10,087,678</u>
Salaries	6,806,639	5,561,546	4,107,402
Supplies and expenses	6,603,393	5,690,968	3,755,833
Provision for depreciation	<u>769,496</u>	<u>705,715</u>	<u>340,271</u>
Total expenses	<u>14,179,528</u>	<u>11,958,229</u>	<u>8,203,506</u>
Operating income	<u>547,564</u>	<u>2,749,343</u>	<u>1,884,172</u>
City taxes	41,372	22,732	55,373
Ambulance subsidy	121,707	118,162	113,050
Investment income	140,507	82,689	67,539
Unrestricted contributions	-	-	940
Interest and amortization expense	(506,769)	(502,398)	(264,230)
Transfer from (to) related foundation	<u>1,960</u>	<u>81,886</u>	<u>(52,376)</u>
Total nonoperating gains (losses)	<u>(201,223)</u>	<u>(196,929)</u>	<u>(79,704)</u>
Change in fund equity	346,341	2,552,414	1,804,468
Total fund equity, beginning	<u>7,812,969</u>	<u>5,260,555</u>	<u>3,456,087</u>
Total fund equity, ending	<u>\$ 8,159,310</u>	<u>\$ 7,812,969</u>	<u>\$ 5,260,555</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2008 and 2007.

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

Volume: Acute discharges for fiscal year 2008 were 168 compared to 142 in fiscal year 2007. Average length of stay decreased slightly as patient days increased to 520 from 449 in 2007. Swing bed, skilled care discharges for fiscal year 2008 were 115 compared to 102 in fiscal year 2007. Average length of stay decreased slightly as patient days increased from 2,553 to 2,753 in 2008. Volume on the outpatient side indicated positive growth in 2008. In 2008, gross outpatient charges increased to \$12,927,594 compared to \$10,842,284 in 2007. Emergency service, pharmacy, dialysis and clinic reflected the most significant growth in 2008.

Price Increase: The Hospital did review its charge structure in 2008. Overall, gross patient service revenue increased to \$16,211,373 from \$14,025,809 in 2007.

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 \$1,506,034 in 2008 from \$(692,969) in 2007. For the year ended June 30, 2008, this represented a reduction of 9% in reimbursement below 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>2008</u>	<u>2007</u>	<u>2006</u>
Medicare	63%	57%	56%
Medicaid	4	4	6
Commercial insurance	29	30	30
Patients	<u>4</u>	<u>9</u>	<u>8</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$155,547 in 2008 compared to \$75,819 in 2007, primarily due to an increase in miscellaneous income.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 22% to \$6,806,639 in 2008 from \$5,561,546 in 2007. The Hospital departments experiencing the most significant increase in 2008 included adult and pediatric, clinic and administration.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 16% to \$6,603,393 in 2008 from \$5,690,968 in 2007. The Hospital departments experiencing the most significant increase in 2008 included pharmacy, administration and group health and life.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$769,496 in 2008 from \$705,715 in 2007.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2008 to \$(201,223) from \$(196,929) in 2007.

Property and Equipment

At the end of 2008, the Hospital had \$11,356,497 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2008, \$1,554,689 was spent to acquire property and equipment.

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

Table 4
Property and Equipment

	June 30		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 254,584	\$ 144,584	\$ 144,584
Land improvements	1,083,535	1,058,440	1,029,842
Buildings	2,677,393	2,677,393	2,519,218
Fixed equipment	5,573,269	5,461,637	4,804,196
Major movable equipment	<u>3,897,975</u>	<u>2,629,022</u>	<u>2,247,288</u>
Subtotal	13,486,756	11,971,076	10,745,128
Less accumulated depreciation	<u>2,130,259</u>	<u>1,399,772</u>	<u>793,162</u>
Property and equipment	<u>\$11,356,497</u>	<u>\$10,571,304</u>	<u>\$ 9,951,966</u>

Debt Administration

At year end, the Hospital had \$10,378,542 in current and long-term debt related to Hospital Revenue Notes and a note payable. More detailed information about the Hospital's outstanding debt is presented in the notes to financial statements. Note that the Notes and the note payable represent approximately 85% 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	
	2008	2007
CURRENT ASSETS		
Cash	\$ 110,491	\$ 827,303
Assets whose use is limited, required for current liabilities	266,700	259,545
Patient receivables, less allowances for contractual adjustments and bad debts	3,915,281	3,460,481
Inventories	274,416	270,393
Prepaid expenses	167,417	99,790
Total current assets	<u>4,734,305</u>	<u>4,917,512</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,876,223	1,666,519
Certificates of deposit	1,378,718	675,723
U.S. Government Agency securities	-	82,452
	<u>3,254,941</u>	<u>2,424,694</u>
Restricted for payment of long-term debt and interest		
Cash	125,194	126,136
Certificates of deposit	395,631	192,000
U.S. Government Agency securities	303,344	506,975
Total assets whose use is limited	<u>4,079,110</u>	<u>3,249,805</u>
Less assets whose use is limited and that are required for current liabilities	266,700	259,545
Noncurrent assets whose use is limited	<u>3,812,410</u>	<u>2,990,260</u>
PROPERTY AND EQUIPMENT	13,486,756	11,971,076
Less accumulated depreciation	2,130,259	1,399,772
Total property and equipment	<u>11,356,497</u>	<u>10,571,304</u>
OTHER ASSET		
Unamortized financing costs	244,490	264,410
Totals	<u>\$20,147,702</u>	<u>\$18,743,486</u>

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCE	June 30	
	2008	2007
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 358,543	\$ 220,000
Accounts payable	368,091	368,614
Accrued employee compensation	408,394	292,542
Payroll taxes and amounts withheld from employees	91,665	149,816
Accrued interest	41,700	39,545
Estimated third-party payor settlements	<u>700,000</u>	<u>600,000</u>
Total current liabilities	<u>1,968,393</u>	<u>1,670,517</u>
LONG-TERM DEBT , less current maturities	<u>10,019,999</u>	<u>9,260,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	1,921,420	2,054,689
Restricted	125,194	126,136
Unrestricted	<u>6,112,696</u>	<u>5,632,144</u>
Total fund equity	<u>8,159,310</u>	<u>7,812,969</u>
Totals	<u>\$20,147,702</u>	<u>\$18,743,486</u>

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

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2008 \$379,164; 2007 \$459,466	\$14,571,545	\$14,631,753
OTHER REVENUE	155,547	75,819
Total revenue	<u>14,727,092</u>	<u>14,707,572</u>
EXPENSES		
Nursing service	3,957,076	3,691,386
Other professional service	4,609,416	3,840,536
General service	909,497	815,205
Fiscal and administrative service and unassigned expenses	3,934,043	2,905,387
Provision for depreciation	769,496	705,715
Total expenses	<u>14,179,528</u>	<u>11,958,229</u>
Operating income	<u>547,564</u>	<u>2,749,343</u>
NONOPERATING GAINS (LOSSES)		
City taxes	41,372	22,732
Ambulance subsidy	121,707	118,162
Investment income	140,507	82,689
Interest and amortization expense	(506,769)	(502,398)
Transfer from related foundation	1,960	81,886
Total nonoperating gains (losses)	<u>(201,223)</u>	<u>(196,929)</u>
Change in fund equity	346,341	2,552,414
TOTAL FUND EQUITY		
Beginning	<u>7,812,969</u>	<u>5,260,555</u>
Ending	<u>\$ 8,159,310</u>	<u>\$ 7,812,969</u>

**Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,216,745	\$14,047,589
Cash paid to suppliers for goods and services	(6,733,717)	(5,614,991)
Cash paid to employees for services	(6,690,787)	(5,495,632)
Other operating revenue received	<u>155,547</u>	<u>75,819</u>
Net cash provided by operating activities	<u>947,788</u>	<u>3,012,785</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
City taxes	41,372	22,732
Ambulance subsidy	121,707	118,162
Transfer from related foundation	<u>1,960</u>	<u>81,886</u>
Net cash provided by noncapital financing activities	<u>165,039</u>	<u>222,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	1,153,093	-
Acquisition of property and equipment	(1,554,689)	(1,663,791)
Principal payments on long-term debt	(254,551)	(215,000)
Interest paid on long-term debt	<u>(484,694)</u>	<u>(483,233)</u>
Net cash (used in) capital and related financing activities	<u>(1,140,841)</u>	<u>(2,362,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	140,507	82,689
Proceeds from maturities of investments	1,607,213	245,992
Purchase of investments	<u>(2,227,756)</u>	<u>(259,873)</u>
Net cash provided by (used in) investing activities	<u>(480,036)</u>	<u>68,808</u>
NET INCREASE (DECREASE) IN CASH	(508,050)	942,349
CASH		
Beginning	<u>2,619,958</u>	<u>1,677,609</u>
Ending	<u>\$ 2,111,908</u>	<u>\$ 2,619,958</u>

See Notes to Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 547,564	\$2,749,343
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	769,496	705,715
Changes in assets and liabilities		
(Increase) in patient receivables	(454,800)	(1,369,674)
(Increase) in inventories	(4,023)	(109,362)
(Increase) in prepaid expenses	(67,627)	(68,376)
Increase (decrease) in accounts payable	(523)	109,168
Increase in accrued employee compensation	115,852	65,914
Increase (decrease) in payroll taxes and amounts withheld from employees	(58,151)	144,547
(Decrease) in deferred revenue	-	(14,490)
Increase in estimated third-party payor settlements	<u>100,000</u>	<u>800,000</u>
Net cash provided by operating activities	<u>\$ 947,788</u>	<u>\$3,012,785</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 110,491	\$ 827,303
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,876,223	1,666,519
Restricted for payment of long-term debt and interest, cash	<u>125,194</u>	<u>126,136</u>
Total per statement of cash flows	<u>\$2,111,908</u>	<u>\$2,619,958</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 three to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the June 30, 2008 presentation with no effect on change in fund equity.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2008 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, 2008 are as follows:

<u>Maturity</u>	<u>Fair value</u>
March, 2012	\$ 101,563
April, 2016	98,531
September, 2017	<u>103,250</u>
Total	<u>\$ 303,344</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:

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
Medicare	\$1,936,910	\$2,042,351
Medicaid	375,722	455,490
Commercial insurance	1,100,947	839,236
Patients	<u>261,702</u>	<u>623,404</u>
Total patient receivables	3,675,281	3,960,481
Plus (less) allowances for contractual adjustments and bad debts	<u>240,000</u>	<u>(500,000)</u>
Net patient receivables	<u><u>\$3,915,281</u></u>	<u><u>\$3,460,481</u></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, 2008:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ 126,136	\$ 698,975	\$ 825,111
Transfer from current assets, cash	695,303	-	695,303
Principal and interest payments	<u>(696,245)</u>	<u>-</u>	<u>(696,245)</u>
BALANCE , end of year	<u><u>\$ 125,194</u></u>	<u><u>\$ 698,975</u></u>	<u><u>\$ 824,169</u></u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 254,584	\$ -	\$ 144,584	\$ -
Land improvements	1,083,535	148,149	1,058,440	86,994
Buildings	2,677,393	423,745	2,677,393	348,824
Fixed equipment	5,573,269	854,195	5,461,637	517,413
Major movable equipment	<u>3,897,975</u>	<u>704,170</u>	<u>2,629,022</u>	<u>446,541</u>
Totals	<u><u>\$13,486,756</u></u>	<u><u>\$2,130,259</u></u>	<u><u>\$11,971,076</u></u>	<u><u>\$1,399,772</u></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, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 144,584	\$ 110,000	\$ —	\$ 254,584
Land improvements	1,058,440	25,095	—	1,083,535
Buildings	2,677,393	—	—	2,677,393
Fixed equipment	5,461,637	116,722	5,090	5,573,269
Major movable equipment	<u>2,629,022</u>	<u>1,302,872</u>	<u>33,919</u>	<u>3,897,975</u>
Totals	11,971,076	1,554,689	39,009	13,486,756
Less accumulated depreciation	<u>(1,399,772)</u>	<u>(769,496)</u>	<u>(39,009)</u>	<u>(2,130,259)</u>
Net property and equipment	<u>\$10,571,304</u>	<u>\$ 785,193</u>	<u>\$ —</u>	<u>\$11,356,497</u>

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>

NOTE 6 LONG-TERM DEBT

Long-term debt at June 30, 2008 and 2007 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Hospital Revenue Notes, Series 2005	\$ 4,000,000	\$4,000,000
Hospital Revenue Notes, Series 2004	5,260,000	5,480,000
Note payable, equipment	<u>1,118,542</u>	<u>—</u>
Total	10,378,542	9,480,000
Less current maturities	<u>358,543</u>	<u>220,000</u>
Long-term debt, net of current maturities	<u>\$10,019,999</u>	<u>\$9,260,000</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, 2008, 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, 2008.

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 3.8% to 6.2%. At June 30, 2008, the remaining balance on these Notes is \$5,260,000. 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, 2008.

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

As to the above Notes, Series 2005 and 2004, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2024. As of June 30, 2008 the remaining principal and interest on the Series 2005 and 2004 Notes was \$13,414,700. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2008 and 2007:

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
Change in fund equity	\$ 346,341	\$2,552,414
Provision for depreciation	769,496	705,715
Interest expense on the Notes	<u>478,400</u>	<u>482,508</u>
Pledged net revenues	<u>\$1,594,237</u>	<u>\$3,740,637</u>
Principal and interest requirements		
Hospital Revenue Notes, Series 2005	\$ 192,000	\$ 192,000
Hospital Revenue Notes, Series 2004	<u>504,245</u>	<u>506,233</u>
Totals	<u>\$ 696,245</u>	<u>\$ 698,233</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note initially requires monthly payments of \$9,000, including interest at 4.5%, with the final payment due April, 2013. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2008, the remaining balance on this notes is \$1,118,542.

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Notes</u>		<u>Note Payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2005</u>	<u>Series 2004</u>				
2009	\$ —	\$ 225,000	\$ 133,543	\$ 358,543	\$ 517,042	\$ 875,585
2010	—	235,000	246,653	481,653	499,192	980,845
2011	—	245,000	257,992	502,992	478,453	981,445
2012	—	255,000	269,853	524,853	456,302	981,155
2013	—	270,000	210,501	480,501	432,944	913,445
2014-2018	4,000,000	1,550,000	—	5,550,000	1,362,000	6,912,000
2019-2023	—	2,005,000	—	2,005,000	515,275	2,520,275
2024	—	475,000	—	475,000	29,450	504,450
Total	4,000,000	5,260,000	1,118,542	10,378,542	4,290,658	14,669,200
Less current maturities	—	225,000	133,543	358,543	517,042	875,585
Total long-term debt	<u>\$4,000,000</u>	<u>\$5,035,000</u>	<u>\$ 984,999</u>	<u>\$10,019,999</u>	<u>\$3,773,616</u>	<u>\$13,793,615</u>

A summary of changes in long-term debt for the year ended June 30, 2008 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	5,480,000	—	220,000	5,260,000	225,000
Note payable, equipment	—	1,153,093	34,551	1,118,542	133,543
Totals	<u>\$9,480,000</u>	<u>\$1,153,093</u>	<u>\$ 254,551</u>	<u>\$10,378,542</u>	<u>\$ 358,543</u>

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	5,695,000	—	215,000	5,480,000	220,000
Totals	<u>\$9,695,000</u>	<u>\$ —</u>	<u>\$ 215,000</u>	<u>\$9,480,000</u>	<u>\$ 220,000</u>

Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS

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, 2006.

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.

Incidents occurring through June 30, 2008 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.

For the year ended June 30, 2008, plan members were required to contribute 3.90% of their annual salary and the Hospital was required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$402,017, \$304,834 and \$237,734, respectively, equal to the required contributions for each year.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

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, 2008 and 2007 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
October 10, 2008

**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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
0 - 30 days (includes patients in Hospital at end of year)	\$1,682,860	\$1,036,836	45.79%	26.18%
31 - 60 days	646,551	986,847	17.59	24.92
61 - 90 days	367,260	559,219	9.99	14.12
91 - 120 days	203,497	378,340	5.54	9.55
Over 120 days	<u>775,113</u>	<u>999,239</u>	<u>21.09</u>	<u>25.23</u>
Totals	<u>3,675,281</u>	<u>3,960,481</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(320,000)	520,000		
Medicaid	(280,000)	(420,000)		
Other	100,000	140,000		
Bad debts	<u>260,000</u>	<u>260,000</u>		
Total allowances	<u>(240,000)</u>	<u>500,000</u>		
Totals	<u>\$3,915,281</u>	<u>\$3,460,481</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 39,813</u>	<u>\$ 40,087</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>98</u>	<u>86</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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
BALANCE , beginning	\$ 260,000	\$ 190,000		
ADD				
Provision for bad debts	379,164	459,466	2.60%	3.14%
Recoveries of accounts previously written off	<u>47,158</u>	<u>32,413</u>	.32	.22
	686,322	681,879		
DEDUCT				
Accounts written off	<u>426,322</u>	<u>421,879</u>	2.92	2.88
BALANCE , ending	<u>\$ 260,000</u>	<u>\$ 260,000</u>		

Marengo Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2008, with comparative totals for 2007

	<u>2008</u>			<u>2007</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 311,028	\$ -	\$ 311,028	\$ 292,817
Skilled care	1,551,280	-	1,551,280	1,429,680
Intermediate care	92,358	-	92,358	153,594
	<u>1,954,666</u>	<u>-</u>	<u>1,954,666</u>	<u>1,876,091</u>
OTHER NURSING SERVICES				
Observation room	-	85,760	85,760	77,040
Operating room	-	3,142,342	3,142,342	3,327,600
Emergency service	8,501	1,509,875	1,518,376	1,263,445
Ambulance	-	894,181	894,181	808,444
	<u>8,501</u>	<u>5,632,158</u>	<u>5,640,659</u>	<u>5,476,529</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	218,676	1,138,810	1,357,486	1,165,725
Radiology	153,410	1,645,459	1,798,869	1,746,947
Respiratory therapy	248,616	230,734	479,350	510,829
Pharmacy	518,508	860,179	1,378,687	1,013,941
Anesthesiology	-	259,007	259,007	253,936
Dialysis	-	1,573,375	1,573,375	694,830
Occupational therapy	64,387	18,758	83,145	102,923
Speech therapy	10,692	5,813	16,505	25,989
Physical therapy	106,323	294,067	400,390	445,343
Clinic	-	1,269,234	1,269,234	712,726
	<u>1,320,612</u>	<u>7,295,436</u>	<u>8,616,048</u>	<u>6,673,189</u>
Totals	<u>\$3,283,779</u>	<u>\$12,927,594</u>	16,211,373	14,025,809
Charity care charges forgave, based on established rates			(133,794)	(87,025)
Total gross patient service revenue			16,077,579	13,938,784
Provisions for contractual adjustments and bad debts			(1,506,034)	692,969
Total net patient service revenue			<u>\$14,571,545</u>	<u>\$14,631,753</u>

Marengo Memorial Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Contractual adjustments		
Medicare	\$ 698,438	\$(1,140,351)
Medicaid	(738,677)	(866,391)
Other adjustments	1,167,109	854,307
Provision for bad debts	<u>379,164</u>	<u>459,466</u>
Totals	<u>\$1,506,034</u>	<u>\$ (692,969)</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Meals	\$ 5,535	\$ 6,304
Lifeline	22,953	22,556
Rental income	13,340	9,315
Miscellaneous	<u>113,719</u>	<u>37,644</u>
Totals	<u>\$ 155,547</u>	<u>\$ 75,819</u>

Marengo Memorial Hospital
EXPENSES
Year ended June 30, 2008, with comparative totals for 2007

	<u>2008</u>			<u>2007</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Adult and pediatric	\$1,554,375	\$ 214,644	\$ 1,769,019	\$ 1,499,725
Operating room	346,464	616,940	963,404	1,089,164
Emergency service	480,542	206,227	686,769	602,439
Ambulance	503,684	34,200	537,884	500,058
Total nursing service	<u>2,885,065</u>	<u>1,072,011</u>	<u>3,957,076</u>	<u>3,691,386</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	278,403	281,882	560,285	491,673
Radiology	216,646	600,603	817,249	671,328
Respiratory therapy	191,855	66,790	258,645	242,052
Cardiac rehabilitation	27,380	2,067	29,447	40,396
Pharmacy	29,639	714,992	744,631	519,613
Anesthesiology	-	272,115	272,115	290,462
Dialysis	133,857	103,442	237,299	169,910
Occupational therapy	-	48,160	48,160	59,671
Speech therapy	-	8,604	8,604	12,581
Physical therapy	-	223,061	223,061	247,311
Clinic	796,635	168,856	965,491	721,996
Health information management	218,157	19,788	237,945	200,311
Social service	74,808	3,468	78,276	75,484
Quality assurance	96,691	31,517	128,208	97,748
Total other professional service	<u>2,064,071</u>	<u>2,545,345</u>	<u>4,609,416</u>	<u>3,840,536</u>
GENERAL SERVICE				
Dietary	174,338	96,372	270,710	237,488
Plant operation	105,143	354,041	459,184	424,408
Housekeeping	125,870	25,261	151,131	127,670
Laundry	-	28,472	28,472	25,639
Total general service	<u>405,351</u>	<u>504,146</u>	<u>909,497</u>	<u>815,205</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	840,598	633,882	1,474,480	1,094,831
Business office	570,133	47,914	618,047	487,979
Purchasing	41,421	1,092	42,513	39,751
Lifeline	-	21,788	21,788	29,825
Group health and life	-	690,441	690,441	407,013
FICA	-	465,698	465,698	385,556
IPERS	-	402,017	402,017	304,834
Insurance	-	219,059	219,059	155,598
Total fiscal and administrative service and unassigned expenses	<u>1,452,152</u>	<u>2,481,891</u>	<u>3,934,043</u>	<u>2,905,387</u>
PROVISION FOR DEPRECIATION				
	-	769,496	769,496	705,715
Total expenses	<u>\$6,806,639</u>	<u>\$7,372,889</u>	<u>\$14,179,528</u>	<u>\$11,958,229</u>

**Marengo Memorial Hospital
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Adult and pediatric	520	449
Swing bed		
Skilled care	2,753	2,553
Intermediate care	<u>733</u>	<u>1,219</u>
Totals	<u>4,006</u>	<u>4,221</u>
DISCHARGES		
Adult and pediatric	168	142
Swing bed		
Skilled care	115	102
Intermediate care	<u>25</u>	<u>38</u>
Totals	<u>308</u>	<u>282</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.10	3.16
Swing bed		
Skilled care	23.94	25.03
Intermediate care	29.32	32.08

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, 2008, and have issued our report thereon dated October 10, 2008. 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, 2008 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
October 10, 2008

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2008**

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, 2008**

Part II—Findings Related to Required Statutory Reporting

08-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

08-II-B TRAVEL EXPENSES

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

08-II-C BUSINESS TRANSACTIONS

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

08-II-D BOARD MINUTES

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

08-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.