

**Marengo Memorial Hospital  
Marengo, Iowa**

**FINANCIAL REPORT**

**June 30, 2009**

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**Marengo Memorial Hospital  
OFFICIALS  
June 30, 2009**

**BOARD OF TRUSTEES**

**Officers**

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

**Expiration of term**

March 1, 2012  
March 1, 2011  
March 1, 2010

**Members**

Marvin Carney  
Janice Meier  
Charles Merritt  
Jeffrey Ritchie

March 1, 2012  
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, 2009 and 2008, 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, 2009 and 2008, 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 September 14, 2009, 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  
September 14, 2009

## **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, 2009 and 2008. 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 decreased by \$1,390,542 to \$18,757,160
- Total noncurrent assets whose use is limited decreased by \$198,342 to \$3,614,068
- Total property and equipment decreased by \$404,313 to \$10,952,184
- Total fund equity decreased by \$538,378 to \$7,620,932
- Total long-term debt decreased by \$358,543 to \$10,019,999
- Net patient service revenue decreased by \$47,835, or 1%, to \$14,523,710
- Expenses increased by \$820,240, or 6%, to \$14,999,768

### **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**

	<b>June 30</b>		
	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>
Current assets	\$ 3,966,218	\$ 4,734,305	\$ 4,917,512
Assets whose use is limited	3,614,068	3,812,410	2,990,260
Property and equipment	10,952,184	11,356,497	10,571,304
Other asset	<u>224,690</u>	<u>244,490</u>	<u>264,410</u>
Total assets	<u>\$18,757,160</u>	<u>\$20,147,702</u>	<u>\$18,743,486</u>
Current liabilities	\$ 1,597,882	\$ 1,968,393	\$ 1,670,517
Long-term debt, less current maturities	<u>9,538,346</u>	<u>10,019,999</u>	<u>9,260,000</u>
Total liabilities	<u>\$11,136,228</u>	<u>\$11,988,392</u>	<u>\$10,930,517</u>
Invested in capital assets, net of related debt	\$ 1,855,850	\$ 1,921,420	\$ 2,054,689
Restricted	122,876	125,194	126,136
Unrestricted	<u>5,642,206</u>	<u>6,112,696</u>	<u>5,632,144</u>
Total fund equity	<u>\$ 7,620,932</u>	<u>\$ 8,159,310</u>	<u>\$ 7,812,969</u>

As depicted in Table 1, total assets decreased in fiscal year 2009 to \$18,757,160. The change in total assets is primarily from an operating loss incurred in fiscal year 2009.

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**

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net patient service revenue	\$14,523,710	\$14,571,545	\$14,631,753
Other revenue	<u>125,072</u>	<u>155,547</u>	<u>75,819</u>
Total operating revenue	<u>14,648,782</u>	<u>14,727,092</u>	<u>14,707,572</u>
Salaries	7,279,167	6,806,639	5,561,546
Supplies and expenses	6,622,258	6,603,393	5,690,968
Provision for depreciation	<u>1,098,343</u>	<u>769,496</u>	<u>705,715</u>
Total expenses	<u>14,999,768</u>	<u>14,179,528</u>	<u>11,958,229</u>
Operating income (loss)	<u>(350,986)</u>	<u>547,564</u>	<u>2,749,343</u>
City taxes	59,861	41,372	22,732
Ambulance subsidy	125,358	121,707	118,162
Investment income	106,964	140,507	82,689
Interest and amortization expense	(536,932)	(506,769)	(502,398)
Transfer from (to) related foundation	<u>57,357</u>	<u>1,960</u>	<u>81,886</u>
Total nonoperating gains (losses)	<u>(187,392)</u>	<u>(201,223)</u>	<u>(196,929)</u>
Change in fund equity	(538,378)	346,341	2,552,414
Total fund equity, beginning	<u>8,159,310</u>	<u>7,812,969</u>	<u>5,260,555</u>
Total fund equity, ending	<u>\$ 7,620,932</u>	<u>\$ 8,159,310</u>	<u>\$ 7,812,969</u>

### **Operating and Financial Performance**

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2009 and 2008.

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

**Volume:** Acute discharges for fiscal year 2009 were 186 compared to 168 in fiscal year 2008. Average length of stay decreased slightly as patient days increased to 564 from 520 in 2008. Swing bed, skilled care discharges for fiscal year 2009 were 140 compared to 115 in fiscal year 2008. Average length of stay decreased slightly as patient days increased from 2,753 to 2,975 in 2009. Volume on the outpatient side indicated positive growth in 2009. In 2009, gross outpatient charges increased to \$13,072,002 compared to \$12,927,594 in 2008. Dialysis and clinic reflected the most significant growth in 2009.

**Price Increase:** The Hospital did review its charge structure in 2009. Overall, gross patient service revenue increased to \$16,950,335 from \$16,077,579 in 2008.

**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 \$2,426,625 in 2009 from \$1,506,034 in 2008. This represents a reduction of 14% and 9% in reimbursement below standard gross patient charges for the years ended June 30, 2009 and 2008, respectively.

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>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	61%	63%	57%
Medicaid	6	4	4
Commercial insurance	29	29	30
Patients	<u>4</u>	<u>4</u>	<u>9</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue decreased to \$125,072 in 2009 compared to \$155,547 in 2008, primarily due to a decrease in miscellaneous income.

**Expenses**

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 7% to \$7,279,167 in 2009 from \$6,806,639 in 2008. The Hospital departments experiencing the most significant increase in 2009 included adult and pediatric, emergency service, and clinic.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 1% to \$6,622,258 in 2009 from \$6,603,393 in 2008. The Hospital department experiencing the most significant increase in 2009 was adult and pediatric.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,098,343 in 2009 from \$769,496 in 2008.

**Nonoperating Gains (Losses)**

Nonoperating gains (losses) increased in 2009 to \$(187,392) from \$(201,223) in 2008.

**Property and Equipment**

At the end of 2009, the Hospital had \$10,952,184 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2009, \$694,030 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**

	<b>June 30</b>		
	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>
Land	\$ 254,584	\$ 254,584	\$ 144,584
Land improvements	1,093,060	1,083,535	1,058,440
Buildings	3,242,424	2,677,393	2,677,393
Fixed equipment	5,582,416	5,573,269	5,461,637
Major movable equipment	<u>3,941,867</u>	<u>3,897,975</u>	<u>2,629,022</u>
Subtotal	14,114,351	13,486,756	11,971,076
Less accumulated depreciation	<u>3,162,167</u>	<u>2,130,259</u>	<u>1,399,772</u>
Property and equipment	<u><b>\$10,952,184</b></u>	<u><b>\$11,356,497</b></u>	<u><b>\$10,571,304</b></u>

**Debt Administration**

At year end, the Hospital had \$10,019,999 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 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	
	2009	2008
<b>CURRENT ASSETS</b>		
Cash	\$ 579,247	\$ 110,491
Assets whose use is limited, required for current liabilities	276,800	266,700
Patient receivables, less allowances for contractual adjustments and bad debts	2,443,594	3,915,281
Estimated third-party payor settlements	300,000	-
Inventories	250,984	274,416
Prepaid expenses	<u>115,593</u>	<u>167,417</u>
Total current assets	<u>3,966,218</u>	<u>4,734,305</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	1,235,504	1,876,223
Certificates of deposit	<u>1,833,513</u>	<u>1,378,718</u>
	3,069,017	3,254,941
Restricted for payment of long-term debt and interest		
Cash	122,876	125,194
Certificates of deposit	598,975	395,631
U.S. Government Agency securities	<u>100,000</u>	<u>303,344</u>
Total assets whose use is limited	3,890,868	4,079,110
Less assets whose use is limited and that are required for current liabilities	<u>276,800</u>	<u>266,700</u>
Noncurrent assets whose use is limited	<u>3,614,068</u>	<u>3,812,410</u>
<b>PROPERTY AND EQUIPMENT</b>	14,114,351	13,486,756
Less accumulated depreciation	<u>3,162,167</u>	<u>2,130,259</u>
Total property and equipment	<u>10,952,184</u>	<u>11,356,497</u>
<b>OTHER ASSET</b>		
Unamortized financing costs	<u>224,690</u>	<u>244,490</u>
 Totals	 <u>\$18,757,160</u>	 <u>\$20,147,702</u>

See Notes to Financial Statements.

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 481,653	\$ 358,543
Accounts payable	500,734	368,091
Accrued employee compensation	455,422	408,394
Payroll taxes and amounts withheld from employees	118,273	91,665
Accrued interest	41,800	41,700
Estimated third-party payor settlements	—	700,000
Total current liabilities	<u>1,597,882</u>	<u>1,968,393</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>9,538,346</u>	<u>10,019,999</u>
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	1,855,850	1,921,420
Restricted	122,876	125,194
Unrestricted	<u>5,642,206</u>	<u>6,112,696</u>
Total fund equity	<u>7,620,932</u>	<u>8,159,310</u>
	<hr/>	<hr/>
Totals	<u>\$18,757,160</u>	<u>\$20,147,702</u>

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

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2009 \$542,551; 2008 \$379,164	\$14,523,710	\$14,571,545
<b>OTHER REVENUE</b>	<u>125,072</u>	<u>155,547</u>
Total revenue	<u>14,648,782</u>	<u>14,727,092</u>
<b>EXPENSES</b>		
Nursing service	4,032,284	3,957,076
Other professional service	4,775,595	4,609,416
General service	970,421	909,497
Fiscal and administrative service and unassigned expenses	4,123,125	3,934,043
Provision for depreciation	<u>1,098,343</u>	<u>769,496</u>
Total expenses	<u>14,999,768</u>	<u>14,179,528</u>
Operating income (loss)	<u>(350,986)</u>	<u>547,564</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
City taxes	59,861	41,372
Ambulance subsidy	125,358	121,707
Investment income	106,964	140,507
Interest and amortization expense	(536,932)	(506,769)
Transfer from related foundation	<u>57,357</u>	<u>1,960</u>
Total nonoperating gains (losses)	<u>(187,392)</u>	<u>(201,223)</u>
Change in fund equity	(538,378)	346,341
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>8,159,310</u>	<u>7,812,969</u>
Ending	<u>\$ 7,620,932</u>	<u>\$ 8,159,310</u>

**Marengo Memorial Hospital  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$14,995,397	\$14,216,745
Cash paid to suppliers for goods and services	(6,387,751)	(6,733,717)
Cash paid to employees for services	(7,232,139)	(6,690,787)
Other operating revenue received	<u>125,072</u>	<u>155,547</u>
Net cash provided by operating activities	<u>1,500,579</u>	<u>947,788</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
City taxes	59,861	41,372
Ambulance subsidy	125,358	121,707
Transfer from related foundation	<u>57,357</u>	<u>1,960</u>
Net cash provided by noncapital financing activities	<u>242,576</u>	<u>165,039</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	-	1,153,093
Acquisition of property and equipment	(694,030)	(1,554,689)
Principal payments on long-term debt	(358,543)	(254,551)
Interest paid on long-term debt	<u>(517,032)</u>	<u>(484,694)</u>
Net cash (used in) capital and related financing activities	<u>(1,569,605)</u>	<u>(1,140,841)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	106,964	140,507
Proceeds from maturities of investments	1,249,979	1,607,213
Purchase of investments	<u>(1,704,774)</u>	<u>(2,227,756)</u>
Net cash (used in) investing activities	<u>(347,831)</u>	<u>(480,036)</u>
<b>NET (DECREASE) IN CASH</b>	(174,281)	(508,050)
<b>CASH</b>		
Beginning	<u>2,111,908</u>	<u>2,619,958</u>
Ending	<u>\$ 1,937,627</u>	<u>\$ 2,111,908</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (350,986)	\$ 547,564
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,098,343	769,496
Changes in assets and liabilities		
(Increase) decrease in patient receivables	1,471,687	(454,800)
Increase (decrease) in net estimated third-party payor settlements	(1,000,000)	100,000
(Increase) decrease in inventories	23,432	(4,023)
(Increase) decrease in prepaid expenses	51,824	(67,627)
Increase (decrease) in accounts payable	132,643	(523)
Increase in accrued employee compensation	47,028	115,852
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>26,608</u>	<u>(58,151)</u>
Net cash provided by operating activities	<u>\$1,500,579</u>	<u>\$ 947,788</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 579,247	\$ 110,491
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,235,504	1,876,223
Restricted for payment of long-term debt and interest, cash	<u>122,876</u>	<u>125,194</u>
Total per statement of cash flows	<u>\$1,937,627</u>	<u>\$2,111,908</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)**

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**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, 2009 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, 2009 are as follows:

<u>Maturity</u>	<u>Fair value</u>
September, 2017	\$ <u>100,000</u>

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.

**Marengo Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**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>2009</u>	<u>2008</u>
Medicare	\$1,231,745	\$1,936,910
Medicaid	273,541	375,722
Commercial insurance	1,172,608	1,100,947
Patients	<u>345,700</u>	<u>261,702</u>
Total patient receivables	3,023,594	3,675,281
Plus (less) allowances for contractual adjustments and bad debts	<u>(580,000)</u>	<u>240,000</u>
Net patient receivables	<u>\$2,443,594</u>	<u>\$3,915,281</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, 2009:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 125,194	\$ 698,975	\$ 824,169
Transfer from current assets, cash	691,117	-	691,117
Principal and interest payments	<u>(693,435)</u>	<u>-</u>	<u>(693,435)</u>
<b>BALANCE</b> , end of year	<u>\$ 122,876</u>	<u>\$ 698,975</u>	<u>\$ 821,851</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 254,584	\$ -	\$ 254,584	\$ -
Land improvements	1,093,060	211,300	1,083,535	148,149
Buildings	3,242,424	506,750	2,677,393	423,745
Fixed equipment	5,582,416	1,198,908	5,573,269	854,195
Major movable equipment	<u>3,941,867</u>	<u>1,245,209</u>	<u>3,897,975</u>	<u>704,170</u>
Totals	<u>\$14,114,351</u>	<u>\$3,162,167</u>	<u>\$13,486,756</u>	<u>\$2,130,259</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, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 254,584	\$ -	\$ -	\$ 254,584
Land improvements	1,083,535	9,525	-	1,093,060
Buildings	2,677,393	572,441	7,410	3,242,424
Fixed equipment	5,573,269	9,147	-	5,582,416
Major movable equipment	<u>3,897,975</u>	<u>102,917</u>	<u>59,025</u>	<u>3,941,867</u>
Totals	13,486,756	694,030	66,435	14,114,351
Less accumulated depreciation	<u>(2,130,259)</u>	<u>(1,098,343)</u>	<u>(66,435)</u>	<u>(3,162,167)</u>
Net property and equipment	<u>\$11,356,497</u>	<u>\$ (404,313)</u>	<u>\$ -</u>	<u>\$10,952,184</u>

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>

**NOTE 6 LONG-TERM DEBT**

Long-term debt at June 30, 2009 and 2008 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Hospital Revenue Notes, Series 2005	\$ 4,000,000	\$ 4,000,000
Hospital Revenue Notes, Series 2004	5,035,000	5,260,000
Note payable, equipment	984,999	1,118,542
Total	10,019,999	10,378,542
Less current maturities	<u>481,653</u>	<u>358,543</u>
Long-term debt, net of current maturities	<u>\$ 9,538,346</u>	<u>\$10,019,999</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, 2009, 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, 2009.

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 4% to 6.2%. At June 30, 2009, the remaining balance on these Notes is \$5,035,000. 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, 2009.

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, 2009 the remaining principal and interest on the Series 2005 and 2004 Notes was \$12,721,265. 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, 2009 and 2008:

	<b>Year ended June 30</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Change in fund equity	\$ (538,378)	\$ 346,341
Provision for depreciation	1,098,343	769,496
Interest expense on the Notes	<u>468,480</u>	<u>478,400</u>
Pledged net revenues	<u>\$1,028,445</u>	<u>\$1,594,237</u>
Principal and interest requirements		
Hospital Revenue Notes, Series 2005	\$ 192,000	\$ 192,000
Hospital Revenue Notes, Series 2004	<u>501,435</u>	<u>504,245</u>
Totals	<u>\$ 693,435</u>	<u>\$ 696,245</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 requires monthly payments of \$23,830, 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, 2009, the remaining balance on this note is \$984,999.

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>				
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	—	280,000	—	280,000	416,555	696,555
2015-2019	4,000,000	1,630,000	—	5,630,000	1,091,500	6,721,500
2020-2024	—	<u>2,120,000</u>	—	<u>2,120,000</u>	<u>398,670</u>	<u>2,518,670</u>
Total	4,000,000	5,035,000	984,999	10,019,999	3,773,616	13,793,615
Less current maturities	—	<u>235,000</u>	<u>246,653</u>	<u>481,653</u>	<u>499,192</u>	<u>980,845</u>
Total long-term debt	<u>\$4,000,000</u>	<u>\$4,800,000</u>	<u>\$ 738,346</u>	<u>\$ 9,538,346</u>	<u>\$3,274,424</u>	<u>\$12,812,770</u>

A summary of changes in long-term debt for the year ended June 30, 2009 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	5,260,000	—	225,000	5,035,000	235,000
Note payable, equipment	<u>1,118,542</u>	—	<u>133,543</u>	<u>984,999</u>	<u>246,653</u>
Totals	<u>\$10,378,542</u>	<u>\$ —</u>	<u>\$ 358,543</u>	<u>\$10,019,999</u>	<u>\$ 481,653</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	—	<u>1,153,093</u>	<u>34,551</u>	<u>1,118,542</u>	<u>133,543</u>
Totals	<u>\$9,480,000</u>	<u>\$1,153,093</u>	<u>\$ 254,551</u>	<u>\$10,378,542</u>	<u>\$ 358,543</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, 2007.

**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, 2009 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, 2009, plan members were required to contribute 4.1% of their annual salary and the Hospital was required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$463,227, \$402,017 and \$304,834, 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, 2009 and 2008 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  
September 14, 2009

**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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 30 days (includes patients in Hospital at end of year)	\$1,483,748	\$1,682,860	49.07%	45.79%
31 - 60 days	444,170	646,551	14.69	17.59
61 - 90 days	271,135	367,260	8.97	9.99
91 - 120 days	151,184	203,497	5.00	5.54
Over 120 days	<u>673,357</u>	<u>775,113</u>	<u>22.27</u>	<u>21.09</u>
Totals	<u>3,023,594</u>	<u>3,675,281</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	160,000	(320,000)		
Medicaid	(100,000)	(280,000)		
Other	220,000	100,000		
Bad debts	<u>300,000</u>	<u>260,000</u>		
Total allowances	<u>580,000</u>	<u>(240,000)</u>		
Totals	<u>\$2,443,594</u>	<u>\$3,915,281</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 39,791</u>	<u>\$ 39,813</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>61</u>	<u>98</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>BALANCE</b> , beginning	\$ 260,000	\$ 260,000		
<b>ADD</b>				
Provision for bad debts	542,551	379,164	3.74%	2.60%
Recoveries of accounts previously written off	<u>55,023</u>	<u>47,158</u>	.38	.32
	857,754	686,322		
<b>DEDUCT</b>				
Accounts written off	<u>557,754</u>	<u>426,322</u>	3.84	2.92
<b>BALANCE</b> , ending	<u>\$ 300,000</u>	<u>\$ 260,000</u>		

**Marengo Memorial Hospital**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Adult and pediatric	\$ 348,552	\$ -	\$ 348,552	\$ 311,028
Skilled care	1,724,386	-	1,724,386	1,551,280
Intermediate care	85,605	-	85,605	92,358
	<u>2,158,543</u>	<u>-</u>	<u>2,158,543</u>	<u>1,954,666</u>
<b>OTHER NURSING SERVICES</b>				
Observation room	-	102,377	102,377	85,760
Operating room	-	1,985,178	1,985,178	3,142,342
Emergency service	123,044	1,785,834	1,908,878	1,518,376
Ambulance	-	956,502	956,502	894,181
	<u>123,044</u>	<u>4,829,891</u>	<u>4,952,935</u>	<u>5,640,659</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	273,222	1,271,354	1,544,576	1,357,486
Radiology	158,989	1,776,472	1,935,461	1,798,869
Respiratory therapy	302,439	285,433	587,872	479,350
Pharmacy	675,027	1,097,638	1,772,665	1,378,687
Anesthesiology	-	166,488	166,488	259,007
Dialysis	-	1,797,594	1,797,594	1,573,375
Occupational therapy	86,135	13,174	99,309	83,145
Speech therapy	12,009	4,541	16,550	16,505
Physical therapy	168,522	264,245	432,767	400,390
Clinic	-	1,565,172	1,565,172	1,269,234
	<u>1,676,343</u>	<u>8,242,111</u>	<u>9,918,454</u>	<u>8,616,048</u>
Totals	<u>\$3,957,930</u>	<u>\$13,072,002</u>	17,029,932	16,211,373
Charity care charges forgave, based on established rates			(79,597)	(133,794)
Total gross patient service revenue			16,950,335	16,077,579
Provisions for contractual adjustments and bad debts			(2,426,625)	(1,506,034)
Total net patient service revenue			<u>\$14,523,710</u>	<u>\$14,571,545</u>

**Marengo Memorial Hospital**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare	\$ 887,023	\$ 698,438
Medicaid	(774,705)	(738,677)
Other adjustments	1,771,756	1,167,109
Provision for bad debts	<u>542,551</u>	<u>379,164</u>
Totals	<u>\$2,426,625</u>	<u>\$1,506,034</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Meals	\$ 17,060	\$ 5,535
Lifeline	22,279	22,953
Rental income	10,681	13,340
Miscellaneous	<u>75,052</u>	<u>113,719</u>
Totals	<u>\$ 125,072</u>	<u>\$ 155,547</u>

**Marengo Memorial Hospital**  
**EXPENSES**  
Year ended June 30, 2009, with comparative totals for 2008

	<b>2009</b>			<b>2008</b>
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Total</b>
<b>NURSING SERVICE</b>				
Adult and pediatric	\$1,717,842	\$ 286,524	\$ 2,004,366	\$ 1,769,019
Operating room	221,381	458,476	679,857	963,404
Emergency service	582,177	146,746	728,923	686,769
Ambulance	591,115	28,023	619,138	537,884
Total nursing service	<u>3,112,515</u>	<u>919,769</u>	<u>4,032,284</u>	<u>3,957,076</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	297,085	325,320	622,405	560,285
Radiology	227,535	583,259	810,794	817,249
Respiratory therapy	228,717	45,685	274,402	258,645
Cardiac rehabilitation	14,849	6,374	21,223	29,447
Pharmacy	31,828	705,765	737,593	744,631
Anesthesiology	-	186,280	186,280	272,115
Dialysis	137,720	87,617	225,337	237,299
Occupational therapy	-	57,670	57,670	48,160
Speech therapy	-	7,690	7,690	8,604
Physical therapy	-	238,627	238,627	223,061
Clinic	928,172	171,068	1,099,240	965,491
Health information management	247,641	17,788	265,429	237,945
Social service	67,391	2,001	69,392	78,276
Quality assurance	116,986	42,527	159,513	128,208
Total other professional service	<u>2,297,924</u>	<u>2,477,671</u>	<u>4,775,595</u>	<u>4,609,416</u>
<b>GENERAL SERVICE</b>				
Dietary	191,234	85,984	277,218	270,710
Plant operation	173,044	339,411	512,455	459,184
Housekeeping	127,116	25,234	152,350	151,131
Laundry	-	28,398	28,398	28,472
Total general service	<u>491,394</u>	<u>479,027</u>	<u>970,421</u>	<u>909,497</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b>				
Administration	802,402	635,844	1,438,246	1,474,480
Business office	527,086	55,722	582,808	618,047
Purchasing	47,846	26,234	74,080	42,513
Lifeline	-	22,538	22,538	21,788
Group health and life	-	768,134	768,134	690,441
FICA	-	503,842	503,842	465,698
IPERS	-	463,227	463,227	402,017
Insurance	-	270,250	270,250	219,059
Total fiscal and administrative service and unassigned expenses	<u>1,377,334</u>	<u>2,745,791</u>	<u>4,123,125</u>	<u>3,934,043</u>
<b>PROVISION FOR DEPRECIATION</b>				
	-	1,098,343	1,098,343	769,496
Total expenses	<u>\$7,279,167</u>	<u>\$7,720,601</u>	<u>\$14,999,768</u>	<u>\$14,179,528</u>

**Marengo Memorial Hospital  
STATISTICS**

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>PATIENT DAYS</b>		
Adult and pediatric	564	520
Swing bed		
Skilled care	2,975	2,753
Intermediate care	654	733
Totals	4,193	4,006
<b>DISCHARGES</b>		
Adult and pediatric	186	168
Swing bed		
Skilled care	140	115
Intermediate care	36	25
Totals	362	308
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	3.03	3.10
Swing bed		
Skilled care	21.25	23.94
Intermediate care	18.17	29.32

**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, 2009, and have issued our report thereon dated September 14, 2009. 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, 2009 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  
September 14, 2009

**Marengo Memorial Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2009**

**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, 2009**

**Part II—Findings Related to Required Statutory Reporting**

**09-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**09-II-B TRAVEL EXPENSES**

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

**09-II-C BUSINESS TRANSACTIONS**

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

**09-II-D BOARD MINUTES**

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

**09-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.