

**Marengo Memorial Hospital
Marengo, Iowa**

FINANCIAL REPORT

June 30, 2011

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
FINANCIAL STATEMENTS	
Balance sheets	10-11
Statements of revenues, expenses, and changes in fund equity	12
Statements of cash flows	13-14
Notes to financial statements	15-23
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	24
SUPPLEMENTARY INFORMATION, FINANCIAL	
Analysis of patient receivables	25
Analysis of allowance for bad debts	25
Patient service revenue	26
Provisions for contractual adjustments and bad debts	27
Other revenue	27
Expenses	28
Statistics	29
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	30-31
SCHEDULE OF FINDINGS	32-33

**Marengo Memorial Hospital
OFFICIALS
June 30, 2011**

BOARD OF TRUSTEES

Officers

Jeffrey Ritchie, Chair
Randy Fry, Vice Chair
Marvin Carney, Secretary-Treasurer

Expiration of term

March 1, 2014
March 1, 2013
March 1, 2012

Members

Susan Davis
Lindsey Jergens
Charles Merritt
Daryl Russ

March 1, 2012
March 1, 2014
March 1, 2013
March 1, 2014

CHIEF EXECUTIVE OFFICER

Barry Goettsch

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, 2011 and 2010, 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, 2011 and 2010, 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 23, 2011, 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 23, 2011

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, 2011 and 2010. 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 \$7,572 to \$18,519,360
- Total noncurrent assets whose use is limited increased by \$13,110 to \$4,986,020
- Total property and equipment decreased by \$142,688 to \$9,731,342
- Total fund equity increased by \$210,349 to \$8,136,428
- Total long-term debt decreased by \$503,069 to \$9,035,354
- Net patient service revenue decreased by \$223,504 or 2%, to \$14,516,447
- Expenses decreased by \$102,941, or 1%, to \$14,262,793

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>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 3,616,908	\$ 3,475,102	\$ 3,966,218
Assets whose use is limited	4,986,020	4,972,910	3,614,068
Property and equipment	9,731,342	9,874,030	10,952,184
Other asset	<u>185,090</u>	<u>204,890</u>	<u>224,690</u>
Total assets	<u>\$18,519,360</u>	<u>\$18,526,932</u>	<u>\$18,757,160</u>
Current liabilities	\$ 1,872,431	\$ 1,565,422	\$ 1,597,882
Long-term debt, less current maturities	<u>8,510,501</u>	<u>9,035,431</u>	<u>9,538,346</u>
Total liabilities	<u>\$10,382,932</u>	<u>\$10,600,853</u>	<u>\$11,136,228</u>
Invested in capital assets, net of related debt	\$ 1,580,053	\$ 1,239,472	\$ 1,855,850
Restricted	124,838	128,594	122,876
Unrestricted	<u>6,431,537</u>	<u>6,558,013</u>	<u>5,642,206</u>
Total fund equity	<u>\$ 8,136,428</u>	<u>\$ 7,926,079</u>	<u>\$ 7,620,932</u>

As depicted in Table 1, total assets decreased slightly in fiscal year 2011 to \$18,519,360.

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>2011</u>	<u>2010</u>	<u>2009</u>
Net patient service revenue	\$14,516,447	\$14,739,951	\$14,523,710
Other revenue	<u>138,955</u>	<u>144,523</u>	<u>125,072</u>
Total operating revenue	<u>14,655,402</u>	<u>14,884,474</u>	<u>14,648,782</u>
Salaries	6,279,319	6,748,838	7,279,167
Supplies and expenses	6,851,856	6,412,622	6,622,258
Provision for depreciation	<u>1,131,618</u>	<u>1,204,254</u>	<u>1,098,343</u>
Total expenses	<u>14,262,793</u>	<u>14,365,714</u>	<u>14,999,768</u>
Operating income (loss)	<u>392,609</u>	<u>518,760</u>	<u>(350,986)</u>
City taxes	41,372	39,831	59,861
Ambulance subsidy	135,361	129,119	125,358
Investment income	129,953	122,227	106,964
Interest and amortization expense	(494,920)	(518,124)	(536,932)
Transfer from related foundation	<u>5,974</u>	<u>13,334</u>	<u>57,357</u>
Total nonoperating gains (losses)	<u>(182,260)</u>	<u>(213,613)</u>	<u>(187,392)</u>
Change in fund equity	210,349	305,147	(538,378)
Total fund equity, beginning	<u>7,926,079</u>	<u>7,620,932</u>	<u>8,159,310</u>
Total fund equity, ending	<u>\$ 8,136,428</u>	<u>\$ 7,926,079</u>	<u>\$ 7,620,932</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2011 and 2010.

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

Volume: Adult and pediatric discharges for fiscal year 2011 were 130 compared to 179 in fiscal year 2010. Average length of stay decreased as patient days decreased to 361 from 550 in 2010. Swing bed, skilled care discharges for fiscal year 2011 were 142 compared to 132 in fiscal year 2010. Average length of stay decreased slightly as patient days decreased from 2,761 to 2,482 in 2011. Volume on the outpatient side decreased in 2011. In 2011, gross outpatient charges were \$12,929,511 compared to \$12,642,829 in 2010. Emergency service and pharmacy reflected the most significant increase in 2011.

Price Increase: The Hospital did review its charge structure in 2011. Overall, gross patient service revenue increased slightly to \$16,512,799 from \$16,525,722 in 2010.

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. Contractual adjustments and bad debts increased to \$1,996,352 in 2011 from \$1,785,771 in 2010. This represents a reduction of 12% and 11% in reimbursement below standard gross patient charges for the years ended June 30, 2011 and 2010, 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>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	59%	60%	61%
Medicaid	9	9	6
Commercial insurance	26	26	29
Patients	<u>6</u>	<u>5</u>	<u>4</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased slightly to \$138,955 in 2011 compared to \$149,523 in 2010.

Expenses

Approximately 45% of Hospital's expenses are for salaries. Total salaries decreased by 7% to \$6,279,319 in 2011 from \$6,748,838 in 2010. The Hospital department experiencing the most significant decrease in 2011 was clinic.

Approximately 50% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$6,851,856 in 2011 from \$6,412,622 in 2010. The Hospital departments experiencing the most significant increase in 2011 were emergency service and administration.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation decreased to \$1,131,618 in 2011 from \$1,204,254 in 2010.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased in 2011 to \$(182,260) from \$(213,613) in 2010, primarily due to a decrease in interest and amortization expense.

Property and Equipment

At the end of 2011, the Hospital had \$9,731,342 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2011, \$988,930 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>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 254,584	\$ 254,584	\$ 254,584
Land improvements	1,093,060	1,093,060	1,093,060
Buildings	2,971,556	2,971,556	3,242,424
Fixed equipment	5,553,707	5,553,707	5,582,416
Major movable equipment	<u>4,865,588</u>	<u>3,876,658</u>	<u>3,941,867</u>
Subtotal	14,738,495	13,749,565	14,114,351
Less accumulated depreciation	<u>5,007,153</u>	<u>3,875,535</u>	<u>3,162,167</u>
Property and equipment	<u>\$ 9,731,342</u>	<u>\$ 9,874,030</u>	<u>\$10,952,184</u>

Debt Administration

At year end, the Hospital had \$9,035,354 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	
	2011	2010
CURRENT ASSETS		
Cash	\$ 530,288	\$ 254,043
Assets whose use is limited, required for current liabilities	292,500	285,800
Patient receivables, less allowances for contractual adjustments and bad debts	2,246,761	2,600,827
Estimated third-party payor settlements	80,000	-
Inventories	283,731	277,680
Prepaid expenses	<u>183,628</u>	<u>56,752</u>
Total current assets	<u>3,616,908</u>	<u>3,475,102</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	221,297	1,267,129
Certificates of deposit	3,825,737	2,753,353
Marketable securities	<u>407,673</u>	<u>410,659</u>
	4,454,707	4,431,141
Restricted for payment of long-term debt and interest		
Cash	124,838	128,594
Certificates of deposit	488,147	389,648
U.S. Government Agency securities	<u>210,828</u>	<u>309,327</u>
Total assets whose use is limited	5,278,520	5,258,710
Less assets whose use is limited and that are required for current liabilities	<u>292,500</u>	<u>285,800</u>
Noncurrent assets whose use is limited	<u>4,986,020</u>	<u>4,972,910</u>
PROPERTY AND EQUIPMENT		
	14,738,495	13,749,565
Less accumulated depreciation	<u>5,007,153</u>	<u>3,875,535</u>
Total property and equipment	<u>9,731,342</u>	<u>9,874,030</u>
OTHER ASSET		
Unamortized financing costs	<u>185,090</u>	<u>204,890</u>
 Totals	 <u>\$18,519,360</u>	 <u>\$18,526,932</u>

See Notes to Financial Statements.

	June 30	
	<u>2011</u>	<u>2010</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 524,853	\$ 502,992
Accounts payable	749,451	200,331
Accrued employee compensation	535,109	496,489
Payroll taxes and amounts withheld from employees	25,518	44,810
Accrued interest	37,500	40,800
Estimated third-party payor settlements	—	280,000
Total current liabilities	<u>1,872,431</u>	<u>1,565,422</u>
LONG-TERM DEBT , less current maturities	<u>8,510,501</u>	<u>9,035,431</u>
FUND EQUITY		
Invested in capital assets, net of related debt	1,580,053	1,239,472
Restricted	124,838	128,594
Unrestricted	<u>6,431,537</u>	<u>6,558,013</u>
Total fund equity	<u>8,136,428</u>	<u>7,926,079</u>
	<hr/>	<hr/>
Totals	<u>\$18,519,360</u>	<u>\$18,526,932</u>

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

	Year ended June 30	
	2011	2010
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2011 \$442,104; 2010 \$449,886	\$14,516,447	\$14,739,951
OTHER REVENUE	<u>138,955</u>	<u>144,523</u>
Total revenue	<u>14,655,402</u>	<u>14,884,474</u>
EXPENSES		
Nursing service	3,333,584	3,464,470
Other professional service	4,547,776	4,713,592
General service	1,025,307	948,017
Fiscal and administrative service and unassigned expenses	4,224,508	4,035,381
Provision for depreciation	<u>1,131,618</u>	<u>1,204,254</u>
Total expenses	<u>14,262,793</u>	<u>14,365,714</u>
Operating income	<u>392,609</u>	<u>518,760</u>
NONOPERATING GAINS (LOSSES)		
City taxes	41,372	39,831
Ambulance subsidy	135,361	129,119
Investment income	129,953	122,227
Interest and amortization expense	(494,920)	(518,124)
Transfer from related foundation	<u>5,974</u>	<u>13,334</u>
Total nonoperating gains (losses)	<u>(182,260)</u>	<u>(213,613)</u>
Change in fund equity	210,349	305,147
TOTAL FUND EQUITY		
Beginning	<u>7,926,079</u>	<u>7,620,932</u>
Ending	<u>\$ 8,136,428</u>	<u>\$ 7,926,079</u>

**Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,510,513	\$15,162,718
Cash paid to suppliers for goods and services	(6,454,955)	(6,754,343)
Cash paid to employees for services	(6,240,699)	(6,707,771)
Other operating revenue received	<u>138,955</u>	<u>144,523</u>
Net cash provided by operating activities	<u>1,953,814</u>	<u>1,845,127</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
City taxes	41,372	39,831
Ambulance subsidy	135,361	129,119
Transfer from related foundation	<u>5,974</u>	<u>13,334</u>
Net cash provided by noncapital financing activities	<u>182,707</u>	<u>182,284</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(988,930)	(126,100)
Principal payments on long-term debt	(503,069)	(481,576)
Interest paid on long-term debt	<u>(478,420)</u>	<u>(499,324)</u>
Net cash (used in) capital and related financing activities	<u>(1,970,419)</u>	<u>(1,107,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	129,953	122,227
Proceeds from maturities of investments	1,129,814	1,539,112
Purchase of investments	<u>(2,199,212)</u>	<u>(2,869,611)</u>
Net cash (used in) investing activities	<u>(939,445)</u>	<u>(1,208,272)</u>
NET (DECREASE) IN CASH	(773,343)	(287,861)
CASH		
Beginning	<u>1,649,766</u>	<u>1,937,627</u>
Ending	<u>\$ 876,423</u>	<u>\$ 1,649,766</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 392,609	\$ 518,760
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,131,618	1,204,254
Changes in assets and liabilities		
(Increase) decrease in patient receivables	354,066	(157,233)
(Increase) decrease in net estimated third-party payor settlements	(360,000)	580,000
(Increase) in inventories	(6,051)	(26,696)
(Increase) decrease in prepaid expenses	(126,876)	58,841
Increase (decrease) in accounts payable	549,120	(300,403)
Increase in accrued employee compensation	38,620	41,067
(Decrease) in payroll taxes and amounts withheld from employees	<u>(19,292)</u>	<u>(73,463)</u>
Net cash provided by operating activities	<u>\$1,953,814</u>	<u>\$1,845,127</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 530,288	\$ 254,043
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	221,297	1,267,129
Restricted for payment of long-term debt and interest, cash	<u>124,838</u>	<u>128,594</u>
Total per statement of cash flows	<u>\$ 876,423</u>	<u>\$1,649,766</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

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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
Marketable securities	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, 2011 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; and marketable securities.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

The Hospital's debt securities, consisting of U.S. Government Agency securities, at June 30, 2011 are as follows:

Maturity	Fair value
July, 2014	\$ <u>210,828</u>

The Hospital's marketable securities, consisting of mutual funds, at June 30, 2011 are as follows:

Maturity	Fair value
Daily	\$ <u>407,673</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.

NOTE 3 PATIENT RECEIVABLES

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

	Year ended June 30	
	2011	2010
Medicare	\$1,396,027	\$1,178,477
Medicaid	135,797	427,515
Commercial insurance	660,782	620,936
Patients	<u>474,155</u>	<u>493,899</u>
Total patient receivables	2,666,761	2,720,827
Less allowances for contractual adjustments and bad debts	<u>(420,000)</u>	<u>(120,000)</u>
Net patient receivables	<u>\$2,246,761</u>	<u>\$2,600,827</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, 2011:

	Sinking Fund	Reserve Fund	Total
BALANCE , beginning of year	\$ 128,594	\$ 698,975	\$ 827,569
Transfer from current assets, cash	691,729	-	691,729
Principal and interest payments	<u>(695,485)</u>	<u>-</u>	<u>(695,485)</u>
BALANCE , end of year	<u>\$ 124,838</u>	<u>\$ 698,975</u>	<u>\$ 823,813</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2011</u>		<u>June 30, 2010</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	339,504	1,093,060	275,402
Buildings	2,971,556	453,993	2,971,556	355,315
Fixed equipment	5,553,707	1,797,069	5,553,707	1,455,356
Major movable equipment	<u>4,865,588</u>	<u>2,416,587</u>	<u>3,876,658</u>	<u>1,789,462</u>
Totals	<u>\$14,738,495</u>	<u>\$5,007,153</u>	<u>\$13,749,565</u>	<u>\$3,875,535</u>

A summary of changes in property and equipment for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 254,584	\$ -	\$ -	\$ 254,584
Land improvements	1,093,060	-	-	1,093,060
Buildings	2,971,556	-	-	2,971,556
Fixed equipment	5,553,707	-	-	5,553,707
Major movable equipment	<u>3,876,658</u>	<u>988,930</u>	-	<u>4,865,588</u>
Totals	<u>13,749,565</u>	<u>988,930</u>	-	<u>14,738,495</u>
Less accumulated depreciation	<u>(3,875,535)</u>	<u>(1,131,618)</u>	-	<u>(5,007,153)</u>
Net property and equipment	<u>\$ 9,874,030</u>	<u>\$ (142,688)</u>	<u>\$ -</u>	<u>\$ 9,731,342</u>

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 254,584	\$ -	\$ -	\$ 254,584
Land improvements	1,093,060	-	-	1,093,060
Buildings	3,242,424	-	270,868	2,971,556
Fixed equipment	5,582,416	61,990	90,699	5,553,707
Major movable equipment	<u>3,941,867</u>	<u>89,110</u>	<u>154,319</u>	<u>3,876,658</u>
Totals	<u>14,114,351</u>	<u>151,100</u>	<u>515,886</u>	<u>13,749,565</u>
Less accumulated depreciation	<u>(3,162,167)</u>	<u>(1,204,254)</u>	<u>(490,886)</u>	<u>(3,875,535)</u>
Net property and equipment	<u>\$10,952,184</u>	<u>\$ (1,053,154)</u>	<u>\$ 25,000</u>	<u>\$ 9,874,030</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT

Long-term debt at June 30, 2011 and 2010 is summarized as follows:

	Year ended June 30	
	2011	2010
Hospital Revenue Notes, Series 2005	\$4,000,000	\$4,000,000
Hospital Revenue Notes, Series 2004	4,555,000	4,800,000
Note payable, equipment	<u>480,354</u>	<u>738,423</u>
Total	9,035,354	9,538,423
Less current maturities	<u>524,853</u>	<u>502,992</u>
Long-term debt, net of current maturities	<u>\$8,510,501</u>	<u>\$9,035,431</u>

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, 2011, 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, 2011.

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 4.4% to 6.2%. At June 30, 2011, the remaining balance on these Notes is \$4,555,000. 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, 2011.

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

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

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, 2011 the remaining principal and interest on the Series 2005 and 2004 Notes was \$11,330,895. 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, 2011 and 2010:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Change in fund equity	\$ 210,349	\$ 305,147
Provision for depreciation	1,131,618	1,204,254
Interest expense on the Notes	<u>447,230</u>	<u>458,940</u>
 Pledged net revenues	 <u>\$1,789,197</u>	 <u>\$1,968,341</u>
 Principal and interest requirements		
Hospital Revenue Notes, Series 2005	\$ 192,000	\$ 192,000
Hospital Revenue Notes, Series 2004	<u>503,485</u>	<u>502,885</u>
 Totals	 <u>\$ 695,485</u>	 <u>\$ 694,885</u>

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, 2011, the remaining balance on this note is \$480,354.

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>				
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	4,000,000	295,000	—	4,295,000	403,255	4,698,255
2016	—	310,000	—	310,000	196,800	506,800
2017-2021	—	1,805,000	—	1,805,000	722,485	2,527,485
2022-2024	—	<u>1,340,000</u>	—	<u>1,340,000</u>	<u>167,630</u>	<u>1,507,630</u>
Total	4,000,000	4,555,000	480,354	9,035,354	2,795,971	11,831,325
Less current maturities	<u>—</u>	<u>255,000</u>	<u>269,853</u>	<u>524,853</u>	<u>456,302</u>	<u>981,155</u>
 Total long-term debt	 <u>\$4,000,000</u>	 <u>\$4,300,000</u>	 <u>\$ 210,501</u>	 <u>\$8,510,501</u>	 <u>\$2,339,669</u>	 <u>\$10,850,170</u>

A summary of changes in long-term debt for the year ended June 30, 2011 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	4,800,000	—	245,000	4,555,000	255,000
Note payable, equipment	<u>738,423</u>	—	<u>258,069</u>	<u>480,354</u>	<u>269,853</u>
 Totals	 <u>\$9,538,423</u>	 <u>\$ —</u>	 <u>\$ 503,069</u>	 <u>\$9,035,354</u>	 <u>\$ 524,853</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2010 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	5,035,000	—	235,000	4,800,000	245,000
Note payable, equipment	<u>984,999</u>	<u>—</u>	<u>246,576</u>	<u>738,423</u>	<u>257,992</u>
Totals	<u>\$10,019,999</u>	<u>\$ —</u>	<u>\$ 481,576</u>	<u>\$9,538,423</u>	<u>\$ 502,992</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

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 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Charges foregone, based on established rates	\$ <u>127,640</u>	\$ <u>73,798</u>
Equivalent percentage of charity care patients to all patients served	<u>.8%</u>	<u>.4%</u>

Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 9 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, 2011 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 10 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, 2011, plan members were required to contribute 4.5% of their annual salary and the Hospital was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$446,011, \$445,694 and \$463,227, respectively, equal to the required contributions for each year.

NOTE 11 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, 2011 and 2010 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 23, 2011

**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 - 30 days (includes patients in Hospital at end of year)	\$1,515,374	\$1,668,170	56.82%	61.31%
31 - 60 days	444,579	419,655	16.67	15.42
61 - 90 days	199,377	148,816	7.48	5.47
91 - 120 days	176,732	224,272	6.63	8.25
Over 120 days	<u>330,699</u>	<u>259,914</u>	<u>12.40</u>	<u>9.55</u>
Totals	<u>2,666,761</u>	<u>2,720,827</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	60,000	(120,000)		
Medicaid	60,000	(100,000)		
Other	80,000	120,000		
Bad debts	<u>220,000</u>	<u>220,000</u>		
Total allowances	<u>420,000</u>	<u>120,000</u>		
Totals	<u>\$2,246,761</u>	<u>\$2,600,827</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 39,771</u>	<u>\$ 40,383</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>56</u>	<u>64</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
BALANCE , beginning	\$ 220,000	\$ 300,000		
ADD				
Provision for bad debts	442,104	449,886	3.05%	3.05%
Recoveries of accounts previously written off	<u>48,462</u>	<u>74,495</u>	.33	.51
	710,566	824,381		
DEDUCT				
Accounts written off	<u>490,566</u>	<u>604,381</u>	3.38	4.10
BALANCE , ending	<u>\$ 220,000</u>	<u>\$ 220,000</u>		

Marengo Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2011, with comparative totals for 2010

	2011			2010
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 233,875	\$ -	\$ 233,875	\$ 346,255
Skilled care	1,446,126	-	1,446,126	1,680,859
Intermediate care	221,130	-	221,130	132,570
	<u>1,901,131</u>	<u>-</u>	<u>1,901,131</u>	<u>2,159,684</u>
OTHER NURSING SERVICES				
Observation room	-	296,630	296,630	246,358
Operating room	18,763	732,349	751,112	787,361
Emergency service	1,662	2,119,055	2,120,717	1,837,702
Ambulance	-	1,027,257	1,027,257	1,075,567
	<u>20,425</u>	<u>4,175,291</u>	<u>4,195,716</u>	<u>3,946,988</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	226,458	1,494,288	1,720,746	1,642,842
Radiology	101,105	1,650,786	1,751,891	1,828,601
Respiratory therapy	178,269	307,923	486,192	541,635
Pharmacy	827,192	1,587,967	2,415,159	2,212,293
Anesthesiology	1,548	34,905	36,453	52,305
Dialysis	-	1,609,340	1,609,340	1,774,598
Occupational therapy	230,865	48,152	279,017	233,669
Speech therapy	22,114	6,253	28,367	22,794
Physical therapy	201,821	489,239	691,060	660,233
Clinic	-	1,525,367	1,525,367	1,523,878
	<u>1,789,372</u>	<u>8,754,220</u>	<u>10,543,592</u>	<u>10,492,848</u>
Totals	<u>\$3,710,928</u>	<u>\$12,929,511</u>	16,640,439	16,599,520
Charity care charges forgave, based on established rates			(127,640)	(73,798)
Total gross patient service revenue			16,512,799	16,525,722
Provisions for contractual adjustments and bad debts			(1,996,352)	(1,785,771)
Total net patient service revenue			<u>\$14,516,447</u>	<u>\$14,739,951</u>

Marengo Memorial Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Contractual adjustments		
Medicare	\$ 114,515	\$1,165,908
Medicaid	186,799	(1,253,732)
Other adjustments	1,252,934	1,423,709
Provision for bad debts	<u>442,104</u>	<u>449,886</u>
 Totals	 <u>\$1,996,352</u>	 <u>\$1,785,771</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Meals	\$ 25,213	\$ 22,609
Lifeline	22,902	22,007
Rental income	23,253	22,960
Miscellaneous	<u>67,587</u>	<u>76,947</u>
 Totals	 <u>\$ 138,955</u>	 <u>\$ 144,523</u>

Marengo Memorial Hospital
EXPENSES
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Adult and pediatric	\$1,595,073	\$ 230,170	\$ 1,825,243	\$ 1,786,819
Operating room	58,494	146,218	204,712	339,440
Emergency service	486,710	291,875	778,585	729,077
Ambulance	501,218	23,826	525,044	609,134
Total nursing service	<u>2,641,495</u>	<u>692,089</u>	<u>3,333,584</u>	<u>3,464,470</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	279,002	297,387	576,389	613,074
Radiology	166,383	587,959	754,342	762,399
Respiratory therapy	217,547	41,381	258,928	254,008
Cardiac rehabilitation	13,129	1,652	14,781	17,741
Pharmacy	48,128	799,727	847,855	778,037
Anesthesiology	-	88,791	88,791	87,598
Dialysis	49,374	84,407	133,781	206,004
Occupational therapy	-	161,191	161,191	123,620
Speech therapy	-	17,396	17,396	11,220
Physical therapy	-	360,427	360,427	354,417
Clinic	710,674	254,102	964,776	1,116,885
Health information management	184,792	28,558	213,350	231,166
Social service	58,347	596	58,943	59,446
Quality assurance	77,951	18,875	96,826	97,977
Total other professional service	<u>1,805,327</u>	<u>2,742,449</u>	<u>4,547,776</u>	<u>4,713,592</u>
GENERAL SERVICE				
Dietary	176,909	114,664	291,573	295,876
Plant operation	173,767	390,023	563,790	494,384
Housekeeping	119,553	20,850	140,403	131,525
Laundry	-	29,541	29,541	26,232
Total general service	<u>470,229</u>	<u>555,078</u>	<u>1,025,307</u>	<u>948,017</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	802,328	780,954	1,583,282	1,398,088
Business office	514,444	69,833	584,277	561,850
Purchasing	45,496	-	45,496	50,246
Lifeline	-	18,351	18,351	21,116
Group health and life	-	794,630	794,630	769,114
FICA	-	426,845	426,845	475,102
IPERS	-	446,011	446,011	445,694
Insurance	-	325,616	325,616	314,171
Total fiscal and administrative service and unassigned expenses	<u>1,362,268</u>	<u>2,862,240</u>	<u>4,224,508</u>	<u>4,035,381</u>
PROVISION FOR DEPRECIATION				
	-	1,131,618	1,131,618	1,204,254
Total expenses	<u>\$6,279,319</u>	<u>\$7,983,474</u>	<u>\$14,262,793</u>	<u>\$14,365,714</u>

**Marengo Memorial Hospital
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
PATIENT DAYS		
Adult and pediatric	361	550
Swing bed		
Skilled care	2,482	2,761
Intermediate care	<u>1,578</u>	<u>949</u>
Totals	<u>4,421</u>	<u>4,260</u>
DISCHARGES		
Adult and pediatric	130	179
Swing bed		
Skilled care	142	132
Intermediate care	<u>30</u>	<u>20</u>
Totals	<u>302</u>	<u>331</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.78	3.07
Swing bed		
Skilled care	17.48	20.92
Intermediate care	52.60	47.45

**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, 2011, and have issued our report thereon dated September 23, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 2011 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 23, 2011

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

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, 2011**

Part II—Findings Related to Required Statutory Reporting

11-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

11-II-B TRAVEL EXPENSES

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

11-II-C BUSINESS TRANSACTIONS

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

11-II-D BOARD MINUTES

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

11-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.