

# **COMMUNITY HOSPITAL OF BREMEN, INC.**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**APRIL 30, 2007 AND 2006**

*CPAs / ADVISORS*



# COMMUNITY HOSPITAL OF BREMEN, INC.

## TABLE OF CONTENTS APRIL 30, 2007 AND 2006

---

	Page
Report of Independent Auditors .....	1
Combined Financial Statements	
Combined Balance Sheets .....	3
Combined Statements of Operations and Changes in Net Assets.....	5
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements.....	7
Supplementary Information	
Schedule of Expenditures of Federal Awards - April 30, 2007.....	19
Combining Balance Sheet – April 30, 2007 .....	20
Combining Balance Sheet – April 30, 2006 .....	21
Combining Statement of Operations and Changes in Net Assets – Year Ended April 30, 2007 .....	22
Combining Statement of Operations and Changes in Net Assets – Year Ended April 30, 2006 .....	23
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24
Report of Independent Auditors on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	26
Schedule of Findings and Questioned Costs – Year Ended April 30, 2007.....	28



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

*blueandco.com*

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Community Hospital of Bremen, Inc.  
Bremen, Indiana

We have audited the accompanying combined balance sheets of Community Hospital of Bremen, Inc. (Hospital) as of April 30, 2007 and 2006, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Community Hospital of Bremen Foundation, Inc. (Foundation), an affiliate of the Hospital, whose statements reflect total assets of \$726,580 and \$1,441,948 as of April 30, 2007 and 2006, respectively, and total nonoperating revenues of \$457,987 and \$862,177, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of April 30, 2007 and 2006, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Community Hospital of Bremen, Inc.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2007, on our consideration of the Hospital's internal control over financial reporting and on 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 considered in assessing the results of our audits.

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. This information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

*Blue & Co., LLC*

June 12, 2007

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINED BALANCE SHEETS APRIL 30, 2007 AND 2006

### ASSETS

	<u>2007</u>	<u>2006</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 592,054	\$ 1,129,952
Investments	258,618	229,538
Patient accounts receivable, less allowance for uncollectible accounts of \$140,000 in 2007 and \$464,000 in 2006	1,864,485	1,759,984
Supplies	99,639	120,893
Prepaid expenses	165,201	167,817
Current portion of contributions receivable	134,546	188,730
Total current assets	<u>3,114,543</u>	<u>3,596,914</u>
<b>Assets whose use is limited</b>		
Board designated for capital improvements	208,781	415,021
Held by trustee	632,725	617,507
Total assets whose use is limited	<u>841,506</u>	<u>1,032,528</u>
<b>Property and equipment, net</b>	19,396,554	19,264,886
<b>Other assets</b>	16,859	13,062
<b>Contributions receivable, long-term</b>	136,020	306,077
Total assets	<u>\$ 23,505,482</u>	<u>\$ 24,213,467</u>

See accompanying notes to combined financial statements.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINED BALANCE SHEETS APRIL 30, 2007 AND 2006

### LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
<b>Current liabilities</b>		
Accounts payable	\$ 321,816	\$ 325,866
Accrued wages and related expenses	583,620	585,579
Accrued interest payable	184,885	122,841
Estimated third-party settlements	358,843	291,612
Deferred revenue	45,239	-0-
Current portion of long-term debt	758,233	618,287
Total current liabilities	<u>2,252,636</u>	<u>1,944,185</u>
Construction payable	-0-	640,583
Long-term debt, less current portion	18,013,309	17,769,094
Total liabilities	<u>20,265,945</u>	<u>20,353,862</u>
<b>Net assets</b>		
Unrestricted	2,967,085	3,354,797
Temporarily restricted net assets	272,452	504,808
Total net assets	<u>3,239,537</u>	<u>3,859,605</u>
Total liabilities and net assets	<u>\$ 23,505,482</u>	<u>\$ 24,213,467</u>

See accompanying notes to combined financial statements.

## COMMUNITY HOSPITAL OF BREMEN, INC.

### COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED APRIL 30, 2007 AND 2006

	2007	2006
<b>Unrestricted operating revenue and gains</b>		
Patient service revenue, net	\$ 12,701,181	\$ 9,246,225
Grants and other public support	44,549	26,011
Other revenue	167,459	169,370
Total unrestricted operating revenue and gains	12,913,189	9,441,606
<b>Unrestricted operating expenses</b>		
Salaries and wages	6,147,417	5,359,827
Employee benefits	1,347,224	1,010,678
Physician fees	131,436	135,105
Medical and surgical supplies	1,281,388	1,007,510
Other supplies	73,633	39,364
Purchased services	905,893	811,693
Equipment rentals	526,649	388,095
Utilities	305,659	130,699
Bad debts	720,444	407,188
Insurance	147,094	222,937
Depreciation	914,997	381,448
Interest	1,041,657	51,006
Other	162,899	176,234
Total unrestricted expenses	13,706,390	10,121,784
Operating loss	(793,201)	(680,178)
<b>Nonoperating revenues (expenses)</b>		
Gain (loss) on the sale of property and equipment	7,250	(779,973)
Foundation unrestricted revenues	208,631	661,828
Foundation unrestricted expenses	(59,748)	(128,015)
Total nonoperating revenues (expenses)	156,133	(246,160)
Net loss	(637,068)	(926,338)
<b>Other changes in unrestricted net assets</b>		
Net assets released from restrictions	249,356	200,349
Change in unrestricted net assets	(387,712)	(725,989)
<b>Temporarily restricted net assets</b>		
Contributions	17,000	306,182
Net assets released from restrictions	(249,356)	(200,349)
Change in temporarily restricted net assets	(232,356)	105,833
Change in net assets	(620,068)	(620,156)
<b>Net assets</b>		
Beginning of year	3,859,605	4,479,761
End of year	\$ 3,239,537	\$ 3,859,605

See accompanying notes to combined financial statements.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED APRIL 30, 2007 AND 2006

	2007	2006
<b>Operating activities</b>		
Change in net assets	\$ (620,068)	\$ (620,156)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	914,997	381,448
Bad debts	720,444	407,188
(Gain) loss on the sale of property and equipment	(7,250)	779,973
Changes in operating assets and liabilities		
Patient accounts receivable	(824,945)	(713,197)
Supplies	21,254	(30,713)
Prepaid expenses	2,616	20,415
Contributions receivable	224,241	(95,832)
Other assets	(3,797)	(1,048)
Accounts payable	(4,050)	141,032
Accrued wages and related expenses	(1,959)	292,795
Accrued interest payable	62,044	57,977
Estimated third-party settlements	67,231	74,210
Deferred revenue	45,239	(48,778)
Net cash flows from operating activities	595,997	645,314
<b>Investing activities</b>		
Change in assets whose use is limited, net	191,022	(283,482)
Change in investments, net	(29,080)	147,363
Purchase of property and equipment	(1,046,665)	(14,583,570)
Proceeds from sale of property and equipment	7,250	448,173
Net cash flows from investing activities	(877,473)	(14,271,516)
<b>Financing activities</b>		
Payments on long-term debt	(504,007)	(302,414)
Change in construction payable	(640,583)	-0-
Proceeds from issuance of long-term debt	888,168	14,484,099
Net cash flows from financing activities	(256,422)	14,181,685
Net change in cash and cash equivalents	(537,898)	555,483
<b>Cash and cash equivalents</b>		
Beginning of year	1,129,952	574,469
End of year	\$ 592,054	\$ 1,129,952
<b>Supplemental cash flows information</b>		
Property and equipment in construction payable	\$ -0-	\$ 640,583
Cash paid for interest including capitalized interest of \$-0- in 2007 and \$531,906 in 2006	\$ 979,613	\$ 524,935

See accompanying notes to combined financial statements.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

### 1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Community Hospital of Bremen, Inc. (Hospital) in the preparation of its combined financial statements are summarized below:

#### Organization

The Hospital, located in Bremen, Indiana, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, and other ancillary services to the residents of Bremen and surrounding communities. Admitting physicians are primarily practitioners in the local area.

Community Hospital of Bremen Foundation, Inc. (Foundation), an affiliate of the Hospital, is a not-for-profit corporation established to support and assist the Hospital through grants and gifts as well as to provide other assistance towards the Hospital's stated exempt purpose.

#### Principles of Combination

The accompanying combined financial statements include the accounts of the Hospital and the Foundation. All material intercompany balances and transactions have been eliminated in the combination. Because the Foundation's sole purpose is to support the activities of the Hospital, the results of these entities have been combined. As a result of this combination, the net assets of the Hospital as of April 30, 2007 and 2006 include \$674,322 and \$1,402,541, respectively, of net assets of the Foundation.

#### Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Investments

Investments consist of certificates of deposit with maturities less than one year recorded at fair market value. The Foundation maintains a fund with the Marshall County Community Foundation. The principal and annual earnings allocable to the fund, net of fees and expenses, are available for distribution as determined by the Foundation. The fund is recorded at fair value.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

### 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 deemed to be charity care, they are not reported as revenue.

### Patient Accounts Receivable and Revenues

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports.

The Hospital is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

Revenue from the Medicare and Medicaid programs accounted for approximately 40% and 1% respectively, of the Hospital's net patient revenue for 2007, and 38% and 1%, respectively, of the Hospital's net patient revenue, for 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year end cost report filed with the Medicare program through April 30, 2005 has been audited and any resulting differences are reflected in the combined financial statements. During 2007 and 2006, the Hospital recognized an increase in net assets of approximately \$32,475 and \$-0-, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

A summary of patient service revenue for 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Inpatient services	\$ 3,871,958	\$ 2,925,792
Outpatient services	<u>13,937,568</u>	<u>11,092,378</u>
	17,809,526	14,018,170
Less provisions for		
Contractual adjustments under third-party reimbursement programs	4,954,433	4,651,421
Charity care	<u>153,912</u>	<u>120,524</u>
Total provisions	<u>5,108,345</u>	<u>4,771,945</u>
Patient service revenue, net	<u>\$ 12,701,181</u>	<u>\$ 9,246,225</u>

### Contributions

The Foundation adheres to Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, pledges received are recorded as revenue in the year the initial pledges are received.

### Assets Whose Use is Limited

Assets whose use is limited by internal board designation include cash and cash equivalents and are recorded at fair value.

---

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

Assets held by trustee include cash and cash equivalents from Hospital deposits for debt service payments and construction commitments in compliance with the debt agreements.

### Property and Equipment and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation.

Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred.

The property and equipment of the Hospital are being depreciated over their estimated useful lives using the straight-line method. The ranges of useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2007 and 2006, there were no gifts of long-lived assets with restrictions.

### Temporarily Restricted Net Assets

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

Temporarily restricted net assets are those whose use by the Hospital has been limited by external sources for a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Restrictions that are met within the year of receipt are reflected with unrestricted net assets. As of April 30, 2007 and 2006, temporarily restricted net assets were \$272,452 and \$504,808, respectively. These assets are restricted for Hospital building construction programs.

### Performance Indicator

Operating income (loss), as reflected in the combined statements of operations and changes in net assets, reflects the excess of revenue over expenses exclusive of nonoperating revenues and expenses which, in the opinion of management, is not part of the Hospital's patient care activities. Net income (loss) represents operating income (loss) and nonoperating revenues and expenses.

### Deferred Revenue

Deferred revenue will be recognized in the period earned.

### Federal and State Income Taxes

The Hospital and Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code and are exempt from Federal and state income taxes.

### Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were \$21,871 and \$8,705 in 2007 and 2006, respectively.

### Statements of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include all cash held in checking and money market accounts available for operating purposes with original maturities of 90 days or less.

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of cash and cash equivalent accounts exceeding federally insured limits. The Hospital has not experienced any losses with these financial instruments and believes that it is not exposed to any significant credit risk.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

### Reclassification

Certain items in the 2006 financial statements have been reclassified herein to conform to the current year presentation.

## 2. 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 based on established rates. Charity care charges foregone during 2007 and 2006 were \$153,912 and \$120,524, respectively.

## 3. INVESTMENTS

Investments are recorded at fair market value and consist of the following as of April 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Funds held by Marshall County Community Foundation	<u>\$ 258,618</u>	<u>\$ 229,538</u>

## 4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include board designated funds for capital improvements and funds designated for debt service held by trustee. The funds are recorded at fair value include the following as of April 30:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	<u>\$ 841,506</u>	<u>\$ 1,032,528</u>

The following is a reconciliation of investment income, included in other revenue on the combined statements of operations, for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest and dividends	<u>\$ 36,458</u>	<u>\$ 28,870</u>

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of April 30:

	2007	2006
Land and land improvements	\$ 440,039	\$ 440,039
Buildings and improvements	17,147,860	16,190,716
Fixed equipment	3,765,965	3,796,684
	21,353,864	20,427,439
Less accumulated depreciation	1,957,310	1,162,553
	\$ 19,396,554	\$ 19,264,886

### 6. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of April 30, 2007 and 2006 consist of the following:

	April 30, 2007			
	Amounts due in less than one year	Amounts due in one to five years	Amounts due in more than five years	Total
Contributions receivable, gross	\$ 149,308	\$ 159,455	\$ 1,000	\$ 309,763
Allowance for uncollectible	14,762	10,183	97	25,042
	134,546	149,272	903	284,721
Unamortized discount	-0-	13,880	275	14,155
Contributions receivable, net	\$ 134,546	\$ 135,392	\$ 628	\$ 270,566

	April 30, 2006			
	Amounts due in less than one year	Amounts due in one to five years	Amounts due in more than five years	Total
Contributions receivable, gross	\$ 199,897	\$ 355,889	\$ 200	\$ 555,986
Allowance for uncollectible	11,167	15,719	17	26,903
	188,730	340,170	183	529,083
Unamortized discount	-0-	34,219	57	34,276
Contributions receivable, net	\$ 188,730	\$ 305,951	\$ 126	\$ 494,807

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

The allowance for uncollectible pledges is determined based on the past experience of the Foundation. Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate equivalent to the yield of US government securities with a similar maturity.

### 7. LONG-TERM DEBT

The following is the summary of long-term debt as of April 30:

	<u>2007</u>	<u>2006</u>
Loan payable to Lake City Bank dated August 4, 2004, maximum amount of \$6,452,000, semi-annual payments of principal and interest at variable rate (7.75% as of April 30, 2007), due January 1, 2025, secured by real estate.	\$ 6,277,619	\$ 6,451,998
Loan payable to United States Department of Agriculture dated April 25, 2005, maximum amount of \$12,000,000, semi-annual payments of principal and interest, interest at fixed rate of 4.25%, due April 15, 2045, secured by real estate.	12,000,055	11,311,125
Loan payable to Lake City Bank dated September 15, 2005 with monthly principal and interest payments, variable interest at 6.51%, due July 15, 2010 secured by inventory, accounts receivable and other assets.	312,925	397,062
Loan payable to Lake City Bank dated August 4, 2004 with monthly principal and interest payments, variable interest at 8.25%, due March 4, 2008, secured by inventory, accounts receivable and other assets.	8,245	73,840
Loan payable to Westfield Bank, FSB, monthly principal and interest payments, fixed interest at 7.85%, due February 1, 2007, secured by security interest in deposit accounts.	148,697	153,356
Loan payable, monthly principal and interest, due June 1, 2009, secured by equipment.	24,001	-0-
	<u>18,771,542</u>	<u>18,387,381</u>
Less current portion	758,233	618,287
	<u>\$ 18,013,309</u>	<u>\$ 17,769,094</u>

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

Annual maturities of long-term debt for the years succeeding April 30, 2007 are as follows:

Year Ending April 30,	
2008	\$ 758,233
2009	591,710
2010	570,749
2011	521,882
2012	503,128
Thereafter	<u>15,825,840</u>
	<u>\$ 18,771,542</u>

During 2006, the Hospital completed construction on a new 65,000 square foot facility located in Bremen. The new acute care Hospital has 23 licensed beds for general and surgical care. All services from the old location were transferred to the new facility. The old facility was sold during 2006. The sale resulted in a loss of approximately \$780,000 which is reflected on the combined statements of operations and changes in net assets.

The Hospital has a loan with Lake City Bank dated August 4, 2004. Under the terms of the loan, the Hospital can draw up to the maximum of \$6,452,000. As of April 30, 2007 and 2006, \$6,277,619 and \$6,451,998, respectively, was the balance of the loan. The loan bears interest at a variable rate equal to the prime rate, minus .50%, adjusted annually with a floor of 3.50% and a ceiling of 8.50%. The variable rate was 7.75% and 5.75% as of April 30, 2007 and 2006, respectively. The loan is secured by the new facility. Additionally, the loan is guaranteed up to 90% by the United States Department of Agriculture (USDA).

In 2005, the Hospital obtained a direct construction loan from the USDA in an amount of \$12 million. As of April 30, 2007 and 2006, the outstanding balance on the loan was \$12,000,055 and \$11,311,125, respectively. The loan bears interest at a fixed rate of 4.25% to be repaid over 40 years. Semi annual principal payments are due beginning in October 2007. The loan is secured by the new facility.

The above loan agreements require the Hospital to comply with certain restrictive covenants including maintenance of minimum debt service coverage. These covenants were effective beginning one year after construction was complete or March 2007. Management has obtained a waiver from the financial institution for noncompliance with certain restrictive covenants related to the year ended April 30, 2007.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

The construction payable relates to liabilities incurred for property and equipment additions which are satisfied through advances on long-term debt agreements. Therefore, the construction payable has been classified as a long-term liability in the combined balance sheets.

### 8. RETIREMENT PLAN

The Hospital has a defined contribution pension plan which covers all eligible employees. The Hospital's contribution is limited to matching the employee's contribution up to 3% of each participant's annual salary. Pension expense was \$88,459 and \$58,347 for 2007 and 2006, respectively.

### 9. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Bremen, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Percentages of patient accounts receivable were as follows as of April 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Medicare	36%	26%
Self pay	12%	29%
Commercial	29%	20%
Blue Cross	11%	6%
Medicaid	9%	10%
Other	3%	9%
	<u>100%</u>	<u>100%</u>

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

### 10. COMMITMENTS AND CONTINGENCIES

#### Self-Funded Health Plan

The Hospital is committed to pay for employees' health care costs. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to \$25,000 per individual per policy year with an aggregate limit of approximately \$200,000. Group health insurance expense for the years ended April 30, 2007 and 2006 totaled \$691,123 and \$517,990, respectively.

#### Estimated Malpractice Costs

The Hospital is covered for malpractice through an insurance carrier. Additionally, claims in excess of \$250,000 are covered by the Indiana Patient's Compensation Fund.

#### Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without adverse effect on the Hospital's future position or results from operations.

### 11. FUNCTIONAL EXPENSES

The Hospital is an acute care hospital providing inpatient, outpatient and other ancillary services to the residents within its geographical region. Expenses related to providing these services for 2007 and 2006 approximate the following:

	2007	2006
Health care services	\$ 9,838,703	\$ 7,265,606
Administrative and general	3,807,939	2,728,163
Fundraising	59,748	128,015
Total expenses	<u>\$ 13,706,390</u>	<u>\$ 10,121,784</u>

# COMMUNITY HOSPITAL OF BREMEN, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS APRIL 30, 2007 AND 2006

---

### 12. OPERATING LEASES

The Hospital has various non-cancelable lease agreements for medical and office equipment through 2012. Minimum required lease payments are as follows:

Year Ending April 30,	
2008	\$ 315,476
2009	309,681
2010	245,936
2011	71,048
2012	1,063
	<u>\$ 943,204</u>

**SUPPLEMENTARY INFORMATION**

# COMMUNITY HOSPITAL OF BREMEN, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED APRIL 30, 2007

Program	CFDA Number	Grant Identification #	Federal Expenditures
<b>Major program</b>			
Community Facilities Loans and Grants - United States Department of Agriculture - Rural Development	10.766	15-50-350835006	\$ 688,929
<b>Non major program</b>			
National Bioterrorism Hospital Preparedness Program - 'DHHS - Indiana State Department of Health	93.889	BHP 518-9	<u>21,663</u>
Total federal expenditures			<u>\$ 710,592</u>

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards for the year ended April 30, 2007 includes the federal grant activity of the Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

### Note 2 – Loans Outstanding

The Hospital had the following loan balances and guarantees outstanding as of April 30, 2007 from the United States Department of Agriculture for the construction of a new Hospital.

Program	CFDA Number	Grant Identification #	Amount Outstanding
Community Facilities Loans and Grants - United States Department of Agriculture - Rural Development	10.766	15-50-350835006	\$ 12,000,055
Community Facilities Loans and Grants - United States Department of Agriculture - Rural Development Non Cash Loan Guarantee with Lake City Bank	10.766	Not Available	\$ 6,277,619

See report of Independent Auditors on pages 1 and 2.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINING BALANCE SHEET APRIL 30, 2007

<b>ASSETS</b>				
	Hospital	Foundation	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 411,517	\$ 180,537	\$ -0-	\$ 592,054
Investments	-0-	258,618	-0-	258,618
Patient accounts receivable, less allowance for uncollectible accounts of \$140,000	1,864,485	-0-	-0-	1,864,485
Receivable from Foundation	51,879	-0-	(51,879)	-0-
Supplies	99,639	-0-	-0-	99,639
Prepaid expenses	165,201	-0-	-0-	165,201
Current portion of contributions receivable	-0-	134,546	-0-	134,546
<b>Total current assets</b>	<b>2,592,721</b>	<b>573,701</b>	<b>(51,879)</b>	<b>3,114,543</b>
<b>Assets whose use is limited</b>				
Board designated for capital improvements	208,781	-0-	-0-	208,781
Trustee held	632,725	-0-	-0-	632,725
<b>Total assets whose use is limited</b>	<b>841,506</b>	<b>-0-</b>	<b>-0-</b>	<b>841,506</b>
<b>Property and equipment, net</b>	<b>19,396,554</b>	<b>-0-</b>	<b>-0-</b>	<b>19,396,554</b>
<b>Other assets</b>	<b>-0-</b>	<b>16,859</b>	<b>-0-</b>	<b>16,859</b>
<b>Contributions receivable, long-term</b>	<b>-0-</b>	<b>136,020</b>	<b>-0-</b>	<b>136,020</b>
<b>Total assets</b>	<b>\$ 22,830,781</b>	<b>\$ 726,580</b>	<b>\$ (51,879)</b>	<b>\$ 23,505,482</b>

### LIABILITIES AND NET ASSETS

<b>Current liabilities</b>				
Accounts payable	\$ 321,437	\$ 52,258	\$ (51,879)	\$ 321,816
Accrued wages and related expenses	583,620	-0-	-0-	583,620
Accrued interest payable	184,885	-0-	-0-	184,885
Estimated third-party settlements	358,843	-0-	-0-	358,843
Deferred revenue	45,239	-0-	-0-	45,239
Current portion long-term debt	758,233	-0-	-0-	758,233
<b>Total current liabilities</b>	<b>2,252,257</b>	<b>52,258</b>	<b>(51,879)</b>	<b>2,252,636</b>
<b>Long-term debt, less current portion</b>	<b>18,013,309</b>	<b>-0-</b>	<b>-0-</b>	<b>18,013,309</b>
<b>Total liabilities</b>	<b>20,265,566</b>	<b>52,258</b>	<b>(51,879)</b>	<b>20,265,945</b>
<b>Net assets</b>				
Unrestricted	2,565,215	401,870	-0-	2,967,085
Temporarily restricted	-0-	272,452	-0-	272,452
<b>Total net assets</b>	<b>2,565,215</b>	<b>674,322</b>	<b>-0-</b>	<b>3,239,537</b>
<b>Total liabilities and net assets</b>	<b>\$ 22,830,781</b>	<b>\$ 726,580</b>	<b>\$ (51,879)</b>	<b>\$ 23,505,482</b>

See Report of Independent Auditors on pages 1 and 2.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINING BALANCE SHEET APRIL 30, 2006

<b>ASSETS</b>				
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current assets</b>				
Cash and cash equivalents	\$ 425,411	\$ 704,541	\$ -0-	\$ 1,129,952
Investments	-0-	229,538	-0-	229,538
Patient accounts receivable, less allowance for uncollectible accounts of \$464,000	1,759,984	-0-	-0-	1,759,984
Receivable from Foundation	39,383	-0-	(39,383)	-0-
Supplies	120,893	-0-	-0-	120,893
Prepaid expenses	167,817	-0-	-0-	167,817
Current portion of contributions receivable	-0-	188,730	-0-	188,730
<b>Total current assets</b>	<u>2,513,488</u>	<u>1,122,809</u>	<u>(39,383)</u>	<u>3,596,914</u>
<b>Assets whose use is limited</b>				
Board designated for capital improvements	415,021	-0-	-0-	415,021
Trustee held	617,507	-0-	-0-	617,507
<b>Total assets whose use is limited</b>	<u>1,032,528</u>	<u>-0-</u>	<u>-0-</u>	<u>1,032,528</u>
<b>Property and equipment, net</b>	19,264,886	-0-	-0-	19,264,886
<b>Other assets</b>	-0-	13,062	-0-	13,062
<b>Contributions receivable, long-term</b>	-0-	306,077	-0-	306,077
<b>Total assets</b>	<u>\$ 22,810,902</u>	<u>\$ 1,441,948</u>	<u>\$ (39,383)</u>	<u>\$ 24,213,467</u>

### LIABILITIES AND NET ASSETS

<b>Current liabilities</b>				
Accounts payable	\$ 325,842	\$ 39,407	\$ (39,383)	\$ 325,866
Accrued wages and related expenses	585,579	-0-	-0-	585,579
Accrued interest payable	122,841	-0-	-0-	122,841
Estimated third-party settlements	291,612	-0-	-0-	291,612
Current portion long-term debt	618,287	0	-0-	618,287
<b>Total current liabilities</b>	<u>1,944,161</u>	<u>39,407</u>	<u>(39,383)</u>	<u>1,944,185</u>
<b>Construction payable</b>	640,583	-0-	-0-	640,583
<b>Long-term debt, less current portion</b>	17,769,094	-0-	-0-	17,769,094
<b>Total liabilities</b>	<u>20,353,838</u>	<u>39,407</u>	<u>(39,383)</u>	<u>20,353,862</u>
<b>Net assets</b>				
Unrestricted	2,457,064	897,733	-0-	3,354,797
Temporarily restricted	-0-	504,808	-0-	504,808
<b>Total net assets</b>	<u>2,457,064</u>	<u>1,402,541</u>	<u>-0-</u>	<u>3,859,605</u>
<b>Total liabilities and net assets</b>	<u>\$ 22,810,902</u>	<u>\$ 1,441,948</u>	<u>\$ (39,383)</u>	<u>\$ 24,213,467</u>

See Report of Independent Auditors on pages 1 and 2.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED APRIL 30, 2007

	Hospital	Foundation	Eliminations	Total
<b>Unrestricted operating revenue and gains</b>				
Patient service revenue, net	\$ 12,701,181	\$ -0-	\$ -0-	\$ 12,701,181
Grants and other public support	44,549	-0-	-0-	44,549
Other revenue	219,338	-0-	(51,879)	167,459
Total unrestricted operating revenue and gains	12,965,068	-0-	(51,879)	12,913,189
<b>Unrestricted operating expenses</b>				
Salaries and wages	6,147,417	-0-	-0-	6,147,417
Employee benefits	1,347,224	-0-	-0-	1,347,224
Physician fees	131,436	-0-	-0-	131,436
Medical and surgical supplies	1,281,388	-0-	-0-	1,281,388
Other supplies	73,633	-0-	-0-	73,633
Purchased services	905,893	-0-	-0-	905,893
Equipment rentals	526,649	-0-	-0-	526,649
Utilities	305,659	-0-	-0-	305,659
Bad debts	720,444	-0-	-0-	720,444
Insurance	147,094	-0-	-0-	147,094
Depreciation	914,997	-0-	-0-	914,997
Interest	1,041,657	-0-	-0-	1,041,657
Other	162,899	-0-	-0-	162,899
Total unrestricted expenses	13,706,390	-0-	-0-	13,706,390
Operating loss	(741,322)	-0-	(51,879)	(793,201)
<b>Nonoperating revenues (expenses)</b>				
Gain on the sale of property and equipment	7,250	-0-	-0-	7,250
Foundation revenues	-0-	208,631	-0-	208,631
Foundation expenses	-0-	(953,850)	894,102	(59,748)
Total nonoperating revenues (expenses)	7,250	(745,219)	894,102	156,133
Net income (loss)	(734,072)	(745,219)	842,223	(637,068)
<b>Other changes in unrestricted net assets</b>				
Contributions from Foundation	842,223	-0-	(842,223)	-0-
Net assets released from restrictions	-0-	249,356	-0-	249,356
Change in unrestricted net assets	108,151	(495,863)	-0-	(387,712)
<b>Temporarily restricted net assets</b>				
Contributions	-0-	17,000	-0-	17,000
Net assets released from restrictions	-0-	(249,356)	-0-	(249,356)
Change in temporarily restricted net assets	-0-	(232,356)	-0-	(232,356)
Change in net assets	108,151	(728,219)	-0-	(620,068)
<b>Net assets</b>				
Beginning of year	2,457,064	1,402,541	-0-	3,859,605
End of year	\$ 2,565,215	\$ 674,322	\$ -0-	\$ 3,239,537

See Report of Independent Auditors on pages 1 and 2.

# COMMUNITY HOSPITAL OF BREMEN, INC.

## COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED APRIL 30, 2006

	Hospital	Foundation	Eliminations	Total
<b>Unrestricted operating revenue and gains</b>				
Patient service revenue, net	\$ 9,246,225	\$ -0-	\$ -0-	\$ 9,246,225
Grants and other public support	26,011	-0-	-0-	26,011
Other revenue	169,370	-0-	-0-	169,370
Total unrestricted operating revenue and gains	<u>9,441,606</u>	<u>-0-</u>	<u>-0-</u>	<u>9,441,606</u>
<b>Unrestricted operating expenses</b>				
Salaries and wages	5,359,827	-0-	-0-	5,359,827
Employee benefits	1,010,678	-0-	-0-	1,010,678
Physician fees	135,105	-0-	-0-	135,105
Medical and surgical supplies	1,007,510	-0-	-0-	1,007,510
Other supplies	39,364	-0-	-0-	39,364
Purchased services	811,693	-0-	-0-	811,693
Equipment rentals	388,095	-0-	-0-	388,095
Utilities	130,699	-0-	-0-	130,699
Bad debts	407,188	-0-	-0-	407,188
Insurance	222,937	-0-	-0-	222,937
Depreciation	381,448	-0-	-0-	381,448
Interest	51,006	-0-	-0-	51,006
Other	176,234	-0-	-0-	176,234
Total unrestricted expenses	<u>10,121,784</u>	<u>-0-</u>	<u>-0-</u>	<u>10,121,784</u>
Operating loss	(680,178)	-0-	-0-	(680,178)
<b>Nonoperating revenues (expenses)</b>				
Loss on the sale of property and equipment	(779,973)	-0-	-0-	(779,973)
Foundation revenues	-0-	661,828	-0-	661,828
Foundation expenses	-0-	(380,756)	252,741	(128,015)
Total nonoperating revenues (expenses)	<u>(779,973)</u>	<u>281,072</u>	<u>252,741</u>	<u>(246,160)</u>
Net income (loss)	(1,460,151)	281,072	252,741	(926,338)
<b>Other changes in unrestricted net assets</b>				
Contributions from Foundation	252,741	-0-	(252,741)	-0-
Net assets released from restrictions	-0-	200,349	-0-	200,349
Change in unrestricted net assets	<u>(1,207,410)</u>	<u>481,421</u>	<u>-0-</u>	<u>(725,989)</u>
<b>Temporarily restricted net assets</b>				
Contributions	-0-	306,182	-0-	306,182
Net assets released from restrictions	-0-	(200,349)	-0-	(200,349)
Change in temporarily restricted net assets	<u>-0-</u>	<u>105,833</u>	<u>-0-</u>	<u>105,833</u>
Change in net assets	<u>(1,207,410)</u>	<u>587,254</u>	<u>-0-</u>	<u>(620,156)</u>
<b>Net assets</b>				
Beginning of year	<u>3,664,474</u>	<u>815,287</u>	<u>-0-</u>	<u>4,479,761</u>
End of year	<u>\$ 2,457,064</u>	<u>\$ 1,402,541</u>	<u>\$ -0-</u>	<u>\$ 3,859,605</u>



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

*blueandco.com*

REPORT OF INDEPENDENT AUDITORS 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 Directors  
Community Hospital of Bremen, Inc.  
Bremen, Indiana

We have audited the combined financial statements of Community Hospital of Bremen, Inc. (Hospital) as of and for the year ended April 30, 2007, and have issued our report thereon dated June 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 combined 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

Board of Directors  
Community Hospital of Bremen, Inc.  
Bremen, Indiana

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 combined 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 combined 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*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated June 12, 2007.

This report is intended solely for the information and use of the Board of Directors, management, the cognizant audit agencies and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**Blue & Co., LLC**

June 12, 2007



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Community Hospital of Bremen, Inc.  
Bremen, Indiana

Compliance

We have audited the compliance of Community Hospital of Bremen, Inc. (Hospital) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2007. The Hospital's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2007.

Board of Directors  
Community Hospital of Bremen, Inc.  
Bremen, Indiana

### Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the cognizant audit agencies and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

**Blue & Co., LLC**

June 12, 2007

# COMMUNITY HOSPITAL OF BREMEN, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED APRIL 30, 2007

---

### Section I - Summary of Audit Results

#### *Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?                    \_\_\_ yes                     X  no

Significant deficiency(ies) identified that are  
not considered to be material weakness(es)?                    \_\_\_ yes                     X  none noted

Noncompliance material to financial statements noted?                    \_\_\_ yes                     X  no

#### *Federal Awards*

Internal controls over major programs:

Material weakness(es) identified?                    \_\_\_ yes                     X  no

Significant deficiency(ies) identified that are  
not considered to be material weakness(es)?                    \_\_\_ yes                     X  none noted

Type of auditor's report issued on compliance for  
major programs: Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with section 510(a) of  
Circular A-133?                    \_\_\_ yes                     X  no

Identification of major program:

CFDA Number  
10.766

Name of Federal Program or Cluster  
Community Facilities Loans and Grants

Dollar threshold used to distinguish between  
type A and B programs: \$300,000

Auditee qualified as low-risk auditee?                     X  yes                    \_\_\_ no

### Section II - Financial Statement Findings

There were no findings required to be reported in accordance with *Government Auditing Standards*.

### Section III - Federal Award Findings and Questioned Costs

There are no findings or questioned costs required to be reported in accordance with OMB Circular A-133.