

**Marengo Memorial Hospital
Marengo, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Marengo Memorial Hospital
OFFICIALS
June 30, 2006**

BOARD OF TRUSTEES

Officers

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

Expiration of term

March 1, 2007
March 1, 2007
March 1, 2009

Members

Myrna Curtis
Susan Davis
Janice Meier
Margaret Staman

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

CHIEF EXECUTIVE OFFICER

Genice Maroc

CHIEF FINANCIAL OFFICER

Dawn Mumby

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, 2006 and 2005, 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, 2006 and 2005, 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 27, 2006, 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 27, 2006

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, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$3,641,159 to \$15,840,396
- Total noncurrent assets whose use is limited increased by \$1,220,965 to \$2,590,241
- Total property and equipment increased by \$3,086,093 to \$9,951,966
- Total fund equity increased by \$1,804,468 to \$5,260,555
- Total long-term debt increased by \$3,795,000 to \$9,695,000
- Net patient service revenue increased by \$3,126,775, or 46% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status
- Expenses increased by \$2,019,380, or 33% to \$8,203,506

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		
	2006	2005	2004
Current assets	\$ 3,013,889	\$ 3,760,388	\$1,984,786
Assets whose use is limited	2,590,241	1,369,276	1,935,614
Property and equipment	9,951,966	6,865,873	917,981
Other asset	<u>284,300</u>	<u>203,700</u>	<u>—</u>
Total assets	<u>\$15,840,396</u>	<u>\$12,199,237</u>	<u>\$4,838,381</u>
Current liabilities	\$ 1,099,841	\$ 3,048,150	\$1,188,170
Long-term debt, less current maturities	<u>9,480,000</u>	<u>5,695,000</u>	<u>1,087,000</u>
Total liabilities	<u>\$10,579,841</u>	<u>\$ 8,743,150</u>	<u>\$2,275,170</u>
Invested in capital assets, net of related debt	\$ 256,966	\$ 965,873	\$ (82,019)
Restricted	821,538	566,223	—
Unrestricted	<u>4,182,051</u>	<u>1,923,991</u>	<u>2,645,230</u>
Total fund equity	<u>\$ 5,260,555</u>	<u>\$ 3,456,087</u>	<u>\$2,563,211</u>

As depicted in Table 1, total assets increased significantly in fiscal year 2006 to \$15,840,396. The change in total assets results primarily from continuing operating income. During fiscal year 2006, the Hospital completed a construction project and capitalized costs of approximately \$10 million. The project included significant expansion, renovation and upgrade of the existing Hospital facility. The costs were primarily funded by issuance of long-term debt.

Revenues, Expenses, and Changes in Fund Equity

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

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

	Year ended June 30		
	2006	2005	2004
Net patient service revenue	\$ 9,989,161	\$6,862,386	\$6,286,465
Other revenue	98,517	98,678	106,117
Total operating revenue	<u>10,087,678</u>	<u>6,961,064</u>	<u>6,392,582</u>
Salaries	4,107,402	3,397,692	3,206,082
Other expenses	3,755,833	2,724,590	2,601,900
Provision for depreciation	340,271	61,844	70,226
Total expenses	<u>8,203,506</u>	<u>6,184,126</u>	<u>5,878,208</u>
Operating income	<u>1,884,172</u>	<u>776,938</u>	<u>514,374</u>
City taxes	55,373	22,570	61,883
Ambulance subsidy	113,050	91,601	91,601
Investment income	67,539	43,497	7,362
Unrestricted contributions	940	25,973	149,310
Interest and amortization expense	(264,230)	(15,343)	(23,853)
Transfer to related foundation	<u>(52,376)</u>	<u>(52,360)</u>	<u>-</u>
Total nonoperating gains (losses)	<u>(79,704)</u>	<u>115,938</u>	<u>286,303</u>
Change in fund equity	1,804,468	892,876	800,677
Total fund equity, beginning	<u>3,456,087</u>	<u>2,563,211</u>	<u>1,762,534</u>
Total fund equity, ending	<u>\$ 5,260,555</u>	<u>\$3,456,087</u>	<u>\$2,563,211</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2006 and 2005.

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

Volume: Acute discharges for fiscal year 2006 were 90 compared to 66 in fiscal year 2005. Average length of stay increased and patient days increased to 294 from 212 in 2005. Swing bed, skilled care discharges for fiscal year 2006 were 71 compared to 59 in fiscal year 2005. Average length of stay increased and patient days increased from 1,456 to 1,801 in 2006. Volume on the outpatient side indicated positive growth in 2006. In 2006, gross outpatient charges increased to \$4,956,833 compared to \$4,137,646 in 2005. Radiology and ophthalmology reflected the most significant growth in 2006.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2006. Overall, gross patient service revenue increased to \$7,106,620 from \$6,013,557 in 2005.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts decreased to \$(2,883,760) in 2006 from \$(848,829) in 2005. This represents an additional 41% reimbursement over standard gross patient charges.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	56%	56%	58%
Medicaid	6	5	4
Wellmark	16	16	14
Commercial insurance	14	13	12
Self pay	<u>8</u>	<u>10</u>	<u>12</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased slightly to \$98,517 in 2006 compared to \$98,678 in 2005.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 21% to \$4,107,402 in 2006 from \$3,397,692 in 2005. The Hospital departments experiencing the most significant increase in 2006 included operating room, health information management and administration and business office.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 38% to \$3,755,833 in 2006 from \$2,724,590 in 2005. The Hospital departments experiencing the most significant increase in 2006 included operating room, pharmacy, plant operation and administration and business office.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$340,271 in 2006 from \$61,844 in 2005.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2006 to \$(79,704) from \$115,938 in 2005, primarily due to an increase in interest and amortization expense in 2006.

Property and Equipment

At the end of 2006, the Hospital had \$9,951,966 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2006, \$3,426,364 was spent to acquire property and equipment, primarily consisting of construction and equipment costs related to the Hospital's significant construction project. Proceeds from issuance of long-term debt were used to provide for the costs of construction.

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

Table 4
Property and Equipment

	June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 144,584	\$ 144,584	\$ 144,584
Land improvements	1,029,842	9,392	9,392
Buildings	2,519,218	342,096	478,676
Fixed equipment	4,804,196	112,003	125,723
Major movable equipment	2,247,288	222,327	297,666
Construction in progress	—	<u>6,549,973</u>	<u>546,197</u>
Subtotal	10,745,128	7,380,375	1,602,238
Less accumulated depreciation	<u>(793,162)</u>	<u>(514,502)</u>	<u>(684,257)</u>
Property and equipment	<u>\$ 9,951,966</u>	<u>\$6,865,873</u>	<u>\$ 917,981</u>

Debt Administration

At year end, the Hospital had \$9,695,000 in long-term debt related to Hospital Revenue Notes. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Notes represent approximately 90% of the Hospital's total liabilities as of year end.

Contacting Hospital's Management

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

**Marengo Memorial Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2006	2005
CURRENT ASSETS		
Cash	\$ 275,367	\$ 1,571,464
Assets whose use is limited, required for current liabilities	255,270	229,770
Patient receivables, less allowances for contractual adjustments and uncollectibles	2,090,807	1,815,651
Estimated third-party payor settlements	200,000	-
Inventories	161,031	138,777
Prepaid expenses	31,414	4,726
Total current assets	3,013,889	3,760,388
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,279,679	68,036
Certificates of deposit	611,842	832,335
U.S. Government Agency securities	132,452	132,452
	2,023,973	1,032,823
Restricted for payment of long-term debt and interest		
Cash	122,563	59,248
Certificates of deposit	192,000	-
U.S. Government Agency securities	506,975	506,975
Total assets whose use is limited	2,845,511	1,599,046
Less assets whose use is limited and that are required for current liabilities	255,270	229,770
Noncurrent assets whose use is limited	2,590,241	1,369,276
PROPERTY AND EQUIPMENT	10,745,128	7,380,375
Less accumulated depreciation	793,162	514,502
Total property and equipment	9,951,966	6,865,873
OTHER ASSET		
Unamortized financing costs	284,300	203,700
Totals	\$15,840,396	\$12,199,237

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCE	June 30	
	2006	2005
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 215,000	\$ 205,000
Accounts payable		
Trade	259,446	191,459
Construction	338,738	1,122,697
Accrued employee compensation	226,628	281,201
Payroll taxes and amounts withheld from employees	5,269	7,399
Accrued interest	40,270	24,770
Deferred revenue	14,490	15,624
Estimated third-party payor settlements	—	1,200,000
Total current liabilities	1,099,841	3,048,150
LONG-TERM DEBT , less current maturities	9,480,000	5,695,000
FUND EQUITY		
Invested in capital assets, net of related debt	256,966	965,873
Restricted	821,538	566,223
Unrestricted	4,182,051	1,923,991
Total fund equity	5,260,555	3,456,087
Totals	\$15,840,396	\$12,199,237

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

	Year ended June 30	
	2006	2005
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2006 \$298,423; 2005 \$256,887	\$ 9,989,161	\$6,862,386
OTHER REVENUE	<u>98,517</u>	<u>98,678</u>
Total revenue	<u>10,087,678</u>	<u>6,961,064</u>
EXPENSES		
Nursing service	2,615,378	2,247,047
Other professional service	2,086,619	1,470,205
General service	743,711	478,443
Fiscal and administrative service and unassigned expenses	2,417,527	1,926,587
Provision for depreciation	<u>340,271</u>	<u>61,844</u>
Total expenses	<u>8,203,506</u>	<u>6,184,126</u>
Operating income	<u>1,884,172</u>	<u>776,938</u>
NONOPERATING GAINS (LOSSES)		
City taxes	55,373	22,570
Ambulance subsidy	113,050	91,601
Investment income	67,539	43,497
Unrestricted contributions	940	25,973
Interest and amortization expense	(264,230)	(15,343)
Transfer to related foundation	<u>(52,376)</u>	<u>(52,360)</u>
Total nonoperating gains (losses)	<u>(79,704)</u>	<u>115,938</u>
Change in fund equity	1,804,468	892,876
TOTAL FUND EQUITY		
Beginning	<u>3,456,087</u>	<u>2,563,211</u>
Ending	<u>\$ 5,260,555</u>	<u>\$3,456,087</u>

**Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$8,312,871	\$6,730,501
Cash paid to suppliers for goods and services	(3,738,918)	(2,830,381)
Cash paid to employees for services	(4,161,975)	(3,351,420)
Other operating revenue received	<u>98,517</u>	<u>98,678</u>
Net cash provided by operating activities	<u>510,495</u>	<u>647,378</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
City taxes	55,373	22,570
Ambulance subsidy	113,050	91,601
Unrestricted contributions	940	25,973
Transfer to related foundation	<u>(52,376)</u>	<u>(52,360)</u>
Net cash provided by noncapital financing activities	<u>116,987</u>	<u>87,784</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	4,000,000	6,000,000
Acquisition of property and equipment	(4,103,171)	(4,849,864)
Principal payments on long-term debt	(205,000)	(1,187,000)
Interest paid on long-term debt	<u>(458,747)</u>	<u>(259,922)</u>
Net cash (used in) capital and related financing activities	<u>(766,918)</u>	<u>(296,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	89,804	71,971
Proceeds from maturities of investments	52,375	15,542
Purchase of investments	<u>(23,882)</u>	<u>(1,324,758)</u>
Net cash provided by (used in) investing activities	<u>118,297</u>	<u>(1,237,245)</u>
NET (DECREASE) IN CASH	(21,139)	(798,869)
CASH		
Beginning	<u>1,698,748</u>	<u>2,497,617</u>
Ending	<u>\$1,677,609</u>	<u>\$1,698,748</u>

See Notes to Financial Statements.

Marengo Memorial Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,884,172	\$ 776,938
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	340,271	61,844
Changes in assets and liabilities		
(Increase) in patient receivables	(275,156)	(727,824)
(Increase) decrease in estimated third-party payor settlements	(1,400,000)	600,000
(Increase) decrease in inventories	(22,254)	7,498
(Increase) decrease in prepaid expenses	(26,688)	21,409
Increase (decrease) in accounts payable, trade	67,987	(141,475)
Increase (decrease) in accrued employee compensation	(54,573)	46,272
Increase (decrease) in payroll taxes and amounts withheld from employees	(2,130)	6,777
(Decrease) in deferred revenue	<u>(1,134)</u>	<u>(4,061)</u>
Net cash provided by operating activities	<u>\$ 510,495</u>	<u>\$ 647,378</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 275,367	\$1,571,464
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,279,679	68,036
Restricted for payment of long-term debt and interest, cash	<u>122,563</u>	<u>59,248</u>
Total per statement of cash flows	<u>\$1,677,609</u>	<u>\$1,698,748</u>

See Notes to Financial Statements.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Hospital is includable as a component unit within the City of Marengo, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Inventories

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

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

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

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

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

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

Property and Equipment

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

Cost of Borrowing

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

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

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenues, Expenses and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments, consisting of U.S. Government Agency securities, at June 30, 2006 are as follows:

<u>Maturity</u>	<u>Fair value</u>
September, 2006	\$ 50,000
August, 2007	100,000
June, 2008	50,000
August, 2009	99,950
September, 2010	100,000
December, 2010	24,617
August, 2014	150,000
January, 2015	49,875
August, 2015	<u>14,985</u>
Total	<u>\$ 639,427</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 PATIENT RECEIVABLES

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Patients	\$ 481,754	\$ 253,442
Insurance carriers	550,217	492,564
Medicare	958,945	488,319
Medicaid	<u>239,891</u>	<u>421,326</u>
Total patient receivables	2,230,807	1,655,651
Plus (less) allowances for contractual adjustments and uncollectibles	<u>(140,000)</u>	<u>160,000</u>
Net patient receivables	<u>\$2,090,807</u>	<u>\$1,815,651</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, 2006:

	<u>Project Fund</u>	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ -	\$ 59,248	\$ 506,975	\$ 566,223
Proceeds from issuance of long-term debt	3,899,500	-	-	3,899,500
Transfer from current assets, cash	-	734,128	192,000	926,128
Payments for construction costs	(3,899,500)	-	-	(3,899,500)
Principal and interest payments	<u>-</u>	<u>(670,813)</u>	<u>-</u>	<u>(670,813)</u>
BALANCE , end of year	<u>\$ -</u>	<u>\$ 122,563</u>	<u>\$ 698,975</u>	<u>\$ 821,538</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 144,584	\$ -	\$ 144,584	\$ -
Land improvements	1,029,842	37,862	9,392	7,514
Buildings	2,519,218	288,095	342,096	268,015
Fixed equipment	4,804,196	219,671	112,003	62,175
Major movable equipment	2,247,288	247,534	222,327	176,798
Construction in progress	<u>-</u>	<u>-</u>	<u>6,549,973</u>	<u>-</u>
Totals	<u>\$10,745,128</u>	<u>\$ 793,162</u>	<u>\$7,380,375</u>	<u>\$ 514,502</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT (continued)

Construction in progress at June 30, 2005, consisted primarily of progress billings for construction costs related to the Hospital's construction project. The project included significant expansion, renovation and upgrade of the existing Hospital facility. During the year ended June 30, 2006, the Hospital completed the project and capitalized costs of approximately \$10 million. The remaining amount to be paid on contracts entered into by the Hospital total \$338,738, accrued as accounts payable-construction on the balance sheets.

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

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

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 144,584	\$ -	\$ -	\$ 144,584
Land improvements	9,392	-	-	9,392
Buildings	478,676	-	136,580	342,096
Fixed equipment	125,723	-	13,720	112,003
Major movable equipment	297,666	5,960	81,299	222,327
Construction in progress	<u>546,197</u>	<u>6,003,776</u>	-	<u>6,549,973</u>
Totals	<u>1,602,238</u>	<u>6,009,736</u>	231,599	7,380,375
Less accumulated depreciation	<u>(684,257)</u>	<u>(61,844)</u>	<u>(231,599)</u>	<u>(514,502)</u>
Net property and equipment	<u>\$ 917,981</u>	<u>\$5,947,892</u>	<u>\$ -</u>	<u>\$6,865,873</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Construction period--interest expense	\$ 229,917	\$ 256,001
Less interest earned on proceeds	<u>(22,265)</u>	<u>(28,474)</u>
Amount capitalized	<u>\$ 207,652</u>	<u>\$ 227,527</u>

**Marengo Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT

Long-term debt at June 30, 2006 and 2005 is summarized as follows:

	Year ended June 30	
	2006	2005
Hospital Revenue Notes, Series 2005	\$4,000,000	\$ —
Hospital Revenue Notes, Series 2004	<u>5,695,000</u>	<u>5,900,000</u>
Total	9,695,000	5,900,000
Less current maturities	<u>215,000</u>	<u>205,000</u>
Long-term debt, net of current maturities	<u>\$9,480,000</u>	<u>\$5,695,000</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%. 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, 2006.

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

Hospital Revenue Notes, Series 2004

The Hospital has issued Hospital Revenue Notes, Series 2004 in the original amount of \$6,000,000. The Notes are payable solely from future revenues of the Hospital and are due serially each June 1 through 2024, at remaining interest rates ranging from 3.25% to 6.2%. 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, 2006.

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

Maturities required on long-term debt are as follows:

Year ending June 30	Revenue Notes		Total Principal	Interest	Total
	Series 2005	Series 2004			
2007	\$ —	\$ 215,000	\$ 215,000	\$ 483,233	\$ 698,233
2008	—	220,000	220,000	476,245	696,245
2009	—	225,000	225,000	468,435	693,435
2010	—	235,000	235,000	459,885	694,885
2011	—	245,000	245,000	450,485	695,485
2012-2016	4,000,000	1,410,000	5,410,000	1,885,780	7,295,780
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	<u>4,000,000</u>	<u>5,695,000</u>	<u>9,695,000</u>	<u>5,114,178</u>	<u>14,809,178</u>
Less current maturities	<u>—</u>	<u>215,000</u>	<u>215,000</u>	<u>483,233</u>	<u>698,233</u>
Total long-term debt	<u>\$4,000,000</u>	<u>\$5,480,000</u>	<u>\$9,480,000</u>	<u>\$4,630,945</u>	<u>\$14,110,945</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, 2006 follows:

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

A summary of changes in long-term debt for the year ended June 30, 2005 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 2004	\$ —	\$6,000,000	\$ 100,000	\$5,900,000	\$ 205,000
Hospital Revenue Loan Agreement Anticipation Project Notes	1,000,000	—	1,000,000	—	—
Warrants payable	<u>87,000</u>	<u>—</u>	<u>87,000</u>	<u>—</u>	<u>—</u>
Totals	<u>\$1,087,000</u>	<u>\$6,000,000</u>	<u>\$1,187,000</u>	<u>\$5,900,000</u>	<u>\$ 205,000</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

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 MEDICAL CLINIC

The Hospital and a medical services corporation have entered into a lease agreement covering the Hospital's medical clinic. The lease, which was renewed for an unspecified period, calls for monthly rent of \$2,800. The rental income amounts included in other revenue was \$33,600 and \$32,405 for the years ended June 30, 2006 and 2005, respectively.

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, 2006 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.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$237,734, \$192,131 and \$181,006, 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, 2006 and 2005 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 27, 2006

**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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 - 30 days (includes patients in Hospital at end of year)	\$ 432,551	\$ 209,171	19.39%	12.63%
31 - 60 days	619,818	469,047	27.78	28.33
61 - 90 days	362,318	280,584	16.24	16.95
91 - 120 days	188,773	173,843	8.46	10.50
Over 120 days	<u>627,347</u>	<u>523,006</u>	<u>28.13</u>	<u>31.59</u>
Totals	<u>2,230,807</u>	<u>1,655,651</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	10,000	(20,000)		
Medicaid	(100,000)	(290,000)		
Other	40,000	30,000		
Uncollectibles	<u>190,000</u>	<u>120,000</u>		
Total allowances	<u>140,000</u>	<u>(160,000)</u>		
Totals	<u>\$2,090,807</u>	<u>\$1,815,651</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 27,368</u>	<u>\$ 18,801</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>76</u>	<u>97</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BALANCE , beginning	\$ 120,000	\$ 80,000		
ADD				
Provision for bad debts	298,423	256,887	2.99%	3.74%
Recoveries of accounts previously written off	<u>35,709</u>	<u>27,532</u>	.36	.40
	454,132	364,419		
DEDUCT				
Accounts written off	<u>264,132</u>	<u>244,419</u>	2.64	3.56
BALANCE , ending	<u>\$ 190,000</u>	<u>\$ 120,000</u>		

Marengo Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 181,800	\$ -	\$ 181,800	\$ 136,086
Skilled care	1,008,560	-	1,008,560	855,120
Intermediate care	<u>145,152</u>	<u>-</u>	<u>145,152</u>	<u>281,410</u>
	<u>1,335,512</u>	<u>-</u>	<u>1,335,512</u>	<u>1,272,616</u>
OTHER NURSING SERVICES				
Observation room	-	69,835	69,835	54,605
Emergency service	5,747	977,163	982,910	931,883
Central supply and intravenous therapy	348	10,161	10,509	27,347
Ambulance	<u>-</u>	<u>761,774</u>	<u>761,774</u>	<u>688,147</u>
	<u>6,095</u>	<u>1,818,933</u>	<u>1,825,028</u>	<u>1,701,982</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	127,983	700,111	828,094	730,511
Radiology	65,179	1,360,939	1,426,118	1,182,980
Electrocardiology	72	5,778	5,850	55,103
Respiratory therapy	155,346	179,636	334,982	241,926
Pharmacy	294,860	263,335	558,195	448,158
Anesthesiology	-	13,658	13,658	-
Ophthalmology	-	154,512	154,512	-
Occupational therapy	76,557	33,821	110,378	84,454
Speech therapy	8,306	10,851	19,157	22,866
Physical therapy	79,877	309,067	388,944	272,961
Clinic	<u>-</u>	<u>106,192</u>	<u>106,192</u>	<u>-</u>
	<u>808,180</u>	<u>3,137,900</u>	<u>3,946,080</u>	<u>3,038,959</u>
Totals	<u>\$2,149,787</u>	<u>\$4,956,833</u>	7,106,620	6,013,557
Charity care charges forgave, based on established rates			(1,219)	-
Total gross patient service revenue			<u>7,105,401</u>	<u>6,013,557</u>
Provision for contractual adjustments and bad debts			<u>2,883,760</u>	<u>848,829</u>
Total net patient service revenue			<u>\$9,989,161</u>	<u>\$6,862,386</u>

Marengo Memorial Hospital
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$(1,400,539)	\$ (37,182)
Medicaid	(2,134,352)	(1,375,124)
Other adjustments	352,708	306,590
Provision for bad debts	<u>298,423</u>	<u>256,887</u>
 Totals	 \$(<u>2,883,760</u>)	 \$(<u>848,829</u>)

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Meals	\$ 5,957	\$ 5,189
Lifeline	18,150	14,824
Rental income		
Medical clinic	33,600	32,405
Other	6,458	7,828
Miscellaneous	<u>34,352</u>	<u>38,432</u>
 Totals	 \$(<u>98,517</u>)	 \$(<u>98,678</u>)

Marengo Memorial Hospital
EXPENSES
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Adult and pediatric	\$1,262,328	\$ 192,332	\$1,454,660	\$1,313,630
Operating room	76,341	85,199	161,540	-
Dialysis	18,469	14,882	33,351	-
Emergency service	351,892	154,123	506,015	519,144
Ambulance	416,997	42,815	459,812	414,273
Total nursing service	<u>2,126,027</u>	<u>489,351</u>	<u>2,615,378</u>	<u>2,247,047</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	194,232	164,775	359,007	344,244
Radiology	143,562	360,762	504,324	469,139
Respiratory therapy	124,386	35,810	160,196	121,330
Cardiac rehabilitation	-	371	371	-
Pharmacy	26,285	292,372	318,657	213,398
Occupational therapy	-	65,072	65,072	54,449
Speech therapy	-	10,289	10,289	14,800
Physical therapy	-	222,284	222,284	180,517
Clinic	111,540	36,414	147,954	-
Health information management	138,854	36,118	174,972	-
Social service	63,653	8,445	72,098	67,607
Quality assurance	35,967	15,428	51,395	4,721
Total other professional service	<u>838,479</u>	<u>1,248,140</u>	<u>2,086,619</u>	<u>1,470,205</u>
GENERAL SERVICE				
Dietary	149,979	54,477	204,456	192,484
Plant operation	74,778	351,173	425,951	207,154
Housekeeping	74,726	21,465	96,191	61,177
Laundry	-	17,113	17,113	17,628
Total general service	<u>299,483</u>	<u>444,228</u>	<u>743,711</u>	<u>478,443</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administrative and business office	813,746	506,338	1,320,084	1,127,786
Purchasing	29,667	1,844	31,511	24,910
Lifeline	-	18,831	18,831	8,221
Group health and life	-	317,312	317,312	195,988
FICA	-	290,387	290,387	231,599
IPERS	-	237,734	237,734	192,131
Insurance	-	201,668	201,668	145,952
Total fiscal and administrative service and unassigned expenses	<u>843,413</u>	<u>1,574,114</u>	<u>2,417,527</u>	<u>1,926,587</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>340,271</u>	<u>340,271</u>	<u>61,844</u>
Total expenses	<u>\$4,107,402</u>	<u>\$4,096,104</u>	<u>\$8,203,506</u>	<u>\$6,184,126</u>

**Marengo Memorial Hospital
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Adult and pediatric	294	212
Swing bed		
Skilled care	1,801	1,456
Intermediate care	<u>1,172</u>	<u>2,172</u>
Totals	<u>3,267</u>	<u>3,840</u>
DISCHARGES		
Adult and pediatric	90	66
Swing bed		
Skilled care	71	59
Intermediate care	<u>25</u>	<u>43</u>
Totals	<u>186</u>	<u>168</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.27	3.21
Swing bed		
Skilled care	25.37	24.68
Intermediate care	46.88	50.51

**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, 2006, and have issued our report thereon dated September 27, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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, 2006 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
DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 27, 2006

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

Part I—Findings Related to the Financial Statements

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

**Marengo Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

06-II-B TRAVEL EXPENSES

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

06-II-C BUSINESS TRANSACTIONS

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

06-II-D BOARD MINUTES

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

06-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.