

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Basic Financial Statements and Supplementary Information
June 30, 2013 and 2012

Together with Independent Auditor's Report

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

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Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Officials
June 30, 2013

Name	Title	Term Expires
Board of Trustees:		
	Cindy Tindal - Chairman	March 2015
	Jeffrey Ritchie – Vice Chair	March 2014
	Randy Fry - Vice Chair	March 2016
	Daryl Russ - Secretary / Treasurer	March 2014
	Adam Grier	March 2015
	Lindsey Jergens	March 2014
	Wayne Parizek	March 2016
Hospital Officials:		
	Barry Goettsch - Chief Executive Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Marengo Memorial Hospital
Marengo, Iowa:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Marengo Memorial Hospital (Hospital) a component unit of City of Marengo, Iowa, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013 and 2012, and the respective change in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of the city of Marengo, Iowa, and are not intended to present fairly the financial position of the City of Marengo, Iowa, and changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in Exhibits 1-6 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 6 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 on our consideration of the 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* in considering the Hospital's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 20, 2013.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Management's Discussion and Analysis
June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Marengo Memorial Hospital (Hospital) provides an overview of financial activities for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with the accompanying financial statements.

Financial Highlights

The Hospital's net position increased in 2013 by \$452,254 or 6%. In 2012, net position decreased by \$412,206 or 5%.

The Hospital reported an operating gain in 2013 of \$74,990 compared to an operating loss in 2012 of \$737,681.

The Hospital's nonoperating revenues increased by \$51,789 in 2013 compared to 2012.

Required Financial Statements

- The basic financial statements of Marengo Memorial Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long term financial information about its activities.
- The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and the financial flexibility of the Hospital.
- All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net position. This statement measures changes in the Hospital's operations over the past 2 years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the statements of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of Marengo Memorial Hospital

The statements of net position and the statements of revenue, expenses, and changes in net position report information about the Hospital's activities. These two statements report the net position of the Hospital and its changes. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Management's Discussion and Analysis
June 30, 2013 and 2012

The Hospital's Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Assets:					
Total current assets	\$ 5,234,316	4,825,270	3,732,013	409,046	8%
Capital assets, net	8,201,689	8,891,106	9,731,342	(689,417)	-8%
Assets limited as to use	3,192,583	2,234,158	4,870,915	958,425	43%
Other non-current assets	269,637	299,597	185,090	(29,960)	-10%
Total assets	<u>\$ 16,898,225</u>	<u>16,250,131</u>	<u>18,519,360</u>	<u>648,094</u>	4%
Liabilities:					
Long-term debt	\$ 6,790,000	7,490,000	9,035,354	(700,000)	-9%
Estimated third-party payor settlements	843,099	--	--	843,099	100%
Other current and non-current liabilities	1,088,650	1,035,909	1,347,578	52,741	5%
Total liabilities	8,721,749	8,525,909	10,382,932	195,840	2%
Net Position:					
Net position	8,176,476	7,724,222	8,136,428	452,254	6%
Total liabilities and net position	<u>\$ 16,898,225</u>	<u>16,250,131</u>	<u>18,519,360</u>	<u>648,094</u>	4%

Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Operating revenue:					
Net patient service revenue	\$ 16,004,700	15,030,191	14,958,551	974,509	6%
Provision for bad debt	(663,946)	(614,093)	(442,104)	(49,853)	8%
Other operating revenue	184,654	806,983	138,955	(622,329)	-77%
Gain on sale of capital assets	216,586	--	--	216,586	100%
Total operating revenue	<u>15,741,994</u>	<u>15,223,081</u>	<u>14,655,402</u>	<u>518,913</u>	3%
Expenses:					
Salaries and employee benefits	8,896,688	8,730,624	8,108,209	166,064	2%
Purchased services and other	5,450,183	5,470,337	5,023,010	(20,154)	0%
Depreciation and amortization	1,150,133	1,297,192	1,151,418	(147,059)	-11%
Interest	170,000	462,609	475,076	(292,609)	-63%
Total expenses	<u>15,667,004</u>	<u>15,960,762</u>	<u>14,757,713</u>	<u>(293,758)</u>	-2%
Operating income (loss)	<u>74,990</u>	<u>(737,681)</u>	<u>(102,311)</u>	<u>812,671</u>	-110%
Nonoperating Revenue and Expenses:					
Property taxes	46,244	41,581	41,372	4,663	11%
Ambulance subsidy	181,411	158,054	135,361	23,357	15%
Investment income	75,185	110,698	129,953	(35,513)	-32%
Transfer from related foundation	74,424	15,142	5,974	59,282	392%
Total nonoperating revenue, net	<u>377,264</u>	<u>325,475</u>	<u>312,660</u>	<u>51,789</u>	16%
Increase (decrease) in net position	452,254	(412,206)	210,349	864,460	-210%
Net position – beginning of year	<u>7,724,222</u>	<u>8,136,428</u>	<u>7,926,079</u>	<u>(412,206)</u>	-5%
Net position – end of year	<u>\$ 8,176,476</u>	<u>7,724,222</u>	<u>8,136,428</u>	<u>452,254</u>	6%

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Management's Discussion and Analysis
June 30, 2013 and 2012

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Rate and volume increases
- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships
- Interest savings from Hospital Revenue Refunding Bonds, Series 2012
- Sale of dialysis unit

A significant component of the Hospital's costs is expenses for salaries and benefits. In 2013 salaries and benefit costs totaled \$8,896,688. In 2012 salaries and benefit costs totaled \$8,730,624. Part of the reason for the increase of 2% is that the Hospital had 164.12 full time equivalent employees in 2013 and 172.67 full time equivalent employees in 2012.

The Hospital at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied for the Hospital, ambulance subsidies, interest revenue, and transfers from related foundation. Non-operating revenue increased \$51,789 in 2013.

Cash Flows

Changes in cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier. Cash flows provided by operating activities increase in 2013 due to increases in estimated third-party payor settlements.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$8,201,689 invested in capital assets, net of accumulated depreciation. Approximately \$514,000 was spent to acquire new equipment in 2013. During 2013, the Hospital sold the operations and equipment associated with its dialysis unit. The sale price was \$300,000 and was effective September 2013.

Debt

In 2012, \$7,490,000 in Series 2012 refunding revenue bonds were issued to obtain interest rates ranging from 1.00% in 2012 to 3.75% in 2022.

Other Economic Factors

The 2013 fiscal year provided the Hospital substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2013 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Management's Discussion and Analysis
June 30, 2013 and 2012

Contacting Hospital Financial Management

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital finances. Questions about this report or requests for additional information should be directed to:

Marengo Memorial Hospital
Attn: Barry Goetsch, CEO
300 West May Street
Marengo IA 52301
319-642-5543

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Statements of Net Position
June 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 709,344	605,288
Assets limited as to use or restricted, current portion	697,149	702,312
Receivables -		
Patient receivables, net of estimated uncollectible accounts of \$529,725 and \$282,896 in 2013 and 2012, respectively	3,276,383	2,548,513
Other - county tax revenue	3,513	19,487
Estimated third-party payor settlements	--	426,706
Inventories	289,934	306,362
Prepaid expenses	<u>257,993</u>	<u>216,602</u>
Total current assets	5,234,316	4,825,270
Assets limited as to use or restricted, net of current portion	3,192,583	2,234,158
Capital assets, net	8,201,689	8,891,106
Deferred financing costs	<u>269,637</u>	<u>299,597</u>
Total assets	<u>\$ 16,898,225</u>	<u>16,250,131</u>
 LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	\$ 695,000	700,000
Accounts payable	336,350	327,783
Accrued salaries, vacation and benefits payable	750,151	705,814
Accrued interest payable	2,149	2,312
Estimated third-party payor settlements	<u>843,099</u>	<u>--</u>
Total current liabilities	2,626,749	1,735,909
Long-term debt, net of unamortized discount and current portion	<u>6,095,000</u>	<u>6,790,000</u>
Total liabilities	<u>8,721,749</u>	<u>8,525,909</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	2,545,051	2,455,419
Unrestricted	<u>5,631,425</u>	<u>5,268,803</u>
Total net position	<u>8,176,476</u>	<u>7,724,222</u>
Total liabilities and net position	<u>\$ 16,898,225</u>	<u>16,250,131</u>

See notes to financial statements

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 16,004,700	15,030,191
Provision for bad debt	(663,946)	(614,093)
Net patient service revenue	15,340,754	14,416,098
Other operating revenue	184,654	806,983
Gain on sale of capital assets	216,586	--
Total operating revenue	<u>15,741,994</u>	<u>15,223,081</u>
EXPENSES:		
Salaries	6,735,282	6,660,834
Employee benefits	2,161,406	2,069,790
Professional fees and purchased services	2,667,514	2,714,535
Supplies and other	2,630,003	2,573,752
Insurance	152,666	182,050
Depreciation and amortization	1,150,133	1,297,192
Interest	170,000	462,609
Total expenses	<u>15,667,004</u>	<u>15,960,762</u>
OPERATING GAIN (LOSS)	<u>74,990</u>	<u>(737,681)</u>
NONOPERATING REVENUE:		
County tax revenues	46,244	41,581
Ambulance subsidy	181,411	158,054
Investment income	75,185	110,698
Transfer from related foundation	74,424	15,142
Nonoperating revenues	<u>377,264</u>	<u>325,475</u>
INCREASE (DECREASE) IN NET POSITION	452,254	(412,206)
NET POSITION, Beginning of year	<u>7,724,222</u>	<u>8,136,428</u>
NET POSITION, End of year	<u>\$ 8,176,476</u>	<u>7,724,222</u>

See notes to financial statements

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 15,882,689	13,767,640
Cash paid for employee salaries and benefits	(8,852,351)	(8,585,437)
Cash paid to suppliers and contractors	(5,466,579)	(5,947,610)
Other receipts and payments, net	<u>184,654</u>	<u>806,983</u>
Net cash provided by operating activities	<u>1,748,413</u>	<u>41,576</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer from related foundation	74,424	15,142
Ambulance subsidy	181,411	158,054
County tax receipts	<u>62,218</u>	<u>22,094</u>
Net cash provided by noncapital financing activities	<u>318,053</u>	<u>195,290</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(514,170)	(437,156)
Proceeds from sale of capital assets	300,000	--
Interest payments	(170,163)	(497,797)
Bond issuance costs	--	(134,307)
Receipts from issuance of long-term debt	--	7,490,000
Principal payments on long-term debt	<u>(700,000)</u>	<u>(9,035,354)</u>
Net cash used in capital and related financing activities	<u>(1,084,333)</u>	<u>(2,614,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in investments and assets limited as to use or restricted, net	(953,262)	2,226,945
Investment income	<u>75,185</u>	<u>110,698</u>
Net cash provided by (used in) investing activities	<u>(878,077)</u>	<u>2,337,643</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,056	(40,105)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>605,288</u>	<u>645,393</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 709,344</u>	<u>605,288</u>

See notes to financial statements

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating gain (loss)	\$ 74,990	(737,681)
Adjustments to reconcile operating gain (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,150,133	1,297,192
Interest expense included in operating expenses	170,000	462,609
Gain on sale of capital assets	(216,586)	--
(Increase) decrease in current assets -		
Receivables - patients	(727,870)	(301,752)
Inventories	16,428	(22,631)
Prepaid expenses	(41,391)	(32,974)
Estimated third-party payor settlements	426,706	(346,706)
Increase (decrease) in current liabilities -		
Accounts payable	8,567	(421,668)
Accrued salaries, vacation and benefits payable	44,337	145,187
Estimated third-party payor settlements	843,099	--
Net cash provided by operating activities	\$ <u>1,748,413</u>	<u>41,576</u>

See notes to financial statements

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Marengo Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a city public hospital organized under Chapter 392 of the Code of Iowa and governed by a Board of Trustees elected for terms of four years.

A. Reporting Entity

The Hospital's financial statements are an integral part of the City of Marengo, Iowa. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of the City of Marengo, Iowa, in conformity with accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. 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. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. The Hospital is a Critical Access Hospital (CAH), operating with 25 acute-care beds. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Notes to Financial Statements
June 30, 2013 and 2012

C. *Basis of Presentation*

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position. When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first. Net positions are reported in the following categories:

Net investment in capital assets – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets – This component of net position consists of net positions that did not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

D. *Basis of Accounting and Accounting Standards*

The Hospital's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, expenses are recognized when incurred.

The Hospital's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements. Governments had been also required to follow the statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board opinions, and Accounting Research Bulletins issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. In December 2010, GASB issued statement No. 62 which incorporated all relevant guidance in GASB standards.

E. *Use of Estimates*

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees or under debt agreements.

G. *Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of expenses over revenue unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of expenses over revenue unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2013 and 2012, there were no investment declines that were determined to be other than temporary.

Marengo Memorial Hospital
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Notes to Financial Statements
June 30, 2013 and 2012

H. Patient Receivables, Net

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

K. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Debt Agreement - These funds are reserve funds held as security for the Series 2012 bonds. These funds are used for the payment of principal and interest on the Series 2012 bonds when insufficient funds are available in the sinking fund.

L. Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is computed using the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements.

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Lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital 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 capital assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

M. Deferred Financing Costs

Deferred financing costs related to the issuance of the Hospital revenue refunding bonds are being amortized over the life of the related bonds under the straight-line method. Amortization expense of \$29,960 and \$19,800 for 2013 and 2012, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

N. Compensated Absences

Paid Time Off (PTO) vests bi-weekly and may be carried forward by an employee in an amount not to exceed 280 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability.

O. Statement of Revenue, Expenses and Changes in Net Position

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

P. Income Taxes

Under the Code of Iowa, Chapter 392, the Hospital is an instrumentality of the City of Marengo, Iowa. As such, the Hospital is exempt from paying income taxes.

Q. 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. Payment arrangements include prospectively determined rates, reimbursed costs, and discounted charges. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. 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.

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R. Charity Care

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

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community health services at or below cost.

S. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

T. County Tax Revenue

Taxes are included in nonoperating gains when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

U. 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

V. Change in Accounting Principle

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statement No. 63 required additional changes such as referring to "Net Assets" as "Net Position" on the statements of net position.

W. Subsequent Events

The Hospital considered events occurring through September 20, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or 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.

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The Hospital manages the following risks in accordance with their formal investment policy:

Interest rate risk: The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds. Other investments are to have maturities consistent with the needs of the Hospital.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 71,871	--
Certificates of deposit	2,974,111	2,181,754
	<u>3,045,982</u>	<u>2,181,754</u>
By Debt Agreements:		
Cash and cash equivalents	81,524	64,963
Certificates of deposit	557,000	480,331
U.S. treasury note	205,226	209,422
	<u>843,750</u>	<u>754,716</u>
Total assets limited as to use or restricted	3,889,732	2,936,470
Less amounts required to meet current obligations	<u>697,149</u>	<u>702,312</u>
Long-term portion	<u>\$ 3,192,583</u>	<u>2,234,158</u>

(3) 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 is as follows:

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Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 4,739,676	4,092,010
Outpatient	12,325,934	14,162,296
Clinics	<u>2,532,066</u>	<u>1,921,431</u>
Total gross patient service revenue	<u>19,597,676</u>	<u>20,175,737</u>
Deductions from gross patient service revenue:		
Medicare	1,310,195	3,140,946
Medicaid	361,670	251,588
Other payors	1,661,477	1,710,144
Charity care	<u>259,634</u>	<u>42,868</u>
Total deductions from gross patient service revenue	<u>3,592,976</u>	<u>5,145,546</u>
Net patient service revenue before provision for bad debt	<u>\$ 16,004,700</u>	<u>15,030,191</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

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Revenue from the Medicare and Medicaid programs accounts for approximately 53% and 6%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013 compared to 57% for Medicare and 7% for Medicaid in 2012. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. 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.

(4) Other Revenue

Other revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 22,400	667,105
Dietary	21,128	27,963
Rental income	41,480	22,713
Grants	11,902	20,216
Gift shop	13,217	14,450
Miscellaneous	<u>74,527</u>	<u>54,536</u>
	<u>\$ 184,654</u>	<u>806,983</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

The Hospital has elected to record a portion of the incentive payment as other operating revenue in the period earned, and defer amounts related to future Medicare reimbursement. Amounts recorded are as follows:

	<u>2013</u>	<u>2012</u>
Medicare Electronic health record incentive payments	\$ --	667,105
Medicaid Electronic health record incentive payments	<u>22,400</u>	<u>--</u>
Total electronic health record incentive payments	<u>\$ 22,400</u>	<u>667,105</u>
Deferred Medicare reimbursement	<u>\$ 462,000</u>	<u>650,000</u>

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 3,967,140	3,384,059
Less estimated third-party contractual adjustments	(161,032)	(552,650)
Less allowance for doubtful accounts	<u>(529,725)</u>	<u>(282,896)</u>
	<u>\$ 3,276,383</u>	<u>2,548,513</u>

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The Hospital is located in Marengo, Iowa and grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	44%	44%
Medicaid	7	5
Other third-party payors	28	35
Private pay	21	16
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 254,584	--	--	254,584
Construction in progress	--	514,170	(233,304)	280,866
Total capital assets, not being depreciated	<u>254,584</u>	<u>514,170</u>	<u>(233,304)</u>	<u>535,450</u>
Capital assets, being depreciated:				
Land improvements	1,093,060	--	9,401	1,102,461
Building and leasehold improvements	2,971,556	--	12,261	2,983,817
Fixed equipment	5,597,414	--	--	5,597,414
Major movable equipment	5,230,845	--	(100,890)	5,129,955
Total capital assets, being depreciated	<u>14,892,875</u>	<u>--</u>	<u>(79,228)</u>	<u>14,813,647</u>
Less accumulated depreciation:				
Land improvements	(403,607)	(64,417)	--	(468,024)
Building and leasehold improvements	(552,671)	(99,097)	--	(651,768)
Fixed equipment	(2,140,968)	(346,084)	--	(2,487,052)
Major movable equipment	(3,159,107)	(610,575)	229,118	(3,540,564)
Total accumulated depreciation	<u>(6,256,353)</u>	<u>(1,120,173)</u>	<u>229,118</u>	<u>(7,147,408)</u>
Total capital assets, being depreciated, net	<u>8,636,522</u>	<u>(1,120,173)</u>	<u>149,890</u>	<u>7,666,239</u>
Total capital assets, net	<u>\$ 8,891,106</u>	<u>(606,003)</u>	<u>(83,414)</u>	<u>8,201,689</u>

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	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2012</u>
Capital assets, not being depreciated:				
Land	\$ 254,584	--	--	254,584
Construction in progress	797,786	437,156	(1,234,942)	--
Total capital assets, not being depreciated	<u>1,052,370</u>	<u>437,156</u>	<u>(1,234,942)</u>	<u>254,584</u>
Capital assets, being depreciated:				
Land improvements	1,093,060	--	--	1,093,060
Building and leasehold improvements	2,971,556	--	--	2,971,556
Fixed equipment	5,581,298	--	16,116	5,597,414
Major movable equipment	4,040,211	--	1,190,634	5,230,845
Total capital assets, being depreciated	<u>13,686,125</u>	<u>--</u>	<u>1,206,750</u>	<u>14,892,875</u>
Less accumulated depreciation:				
Land improvements	(339,504)	(64,103)	--	(403,607)
Building and leasehold improvements	(453,993)	(98,678)	--	(552,671)
Fixed equipment	(1,797,069)	(343,899)	--	(2,140,968)
Major movable equipment	(2,416,587)	(770,712)	28,192	(3,159,107)
Total accumulated depreciation	<u>(5,007,153)</u>	<u>(1,277,392)</u>	<u>28,192</u>	<u>(6,256,353)</u>
Total capital assets, being depreciated, net	<u>8,678,972</u>	<u>(1,277,392)</u>	<u>1,234,942</u>	<u>8,636,522</u>
Total capital assets, net	<u>\$ 9,731,342</u>	<u>(840,236)</u>	<u>--</u>	<u>8,891,106</u>

During 2013 the Hospital sold the operations and equipment associated with its dialysis unit. The sale price was \$300,000 and was effective September 2013.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2013 and 2012 consisted of the following:

	<u>June 30,</u> <u>2012</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>
Series 2012 (a)	\$ 7,490,000	--	(700,000)	6,790,000	695,000
	<u>7,490,000</u>	<u>--</u>	<u>(700,000)</u>	<u>6,790,000</u>	<u>695,000</u>
	<u>June 30,</u> <u>2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2012</u>	<u>Due Within</u> <u>One Year</u>
Series 2012 (a)	\$ --	7,490,000	--	7,490,000	700,000
Series 2005 (b)	4,000,000	--	(4,000,000)	--	--
Series 2004 (c)	4,555,000	--	(4,555,000)	--	--
Note payable, equipment (d)	480,354	--	(480,354)	--	--
	<u>\$ 9,035,354</u>	<u>7,490,000</u>	<u>(9,035,354)</u>	<u>7,490,000</u>	<u>700,000</u>

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- (a) The Hospital issued \$7,490,000 of Hospital Revenue Refunding Bonds, Series 2012. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 2005 and Series 2004. The Series 2012 bonds bear interest at rates ranging from 1.20% to 3.75%. Annual principal payments are due in amounts ranging from \$695,000 to \$855,000 through June 2022.

The Series 2012 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Hospital. The terms of the trust indenture require the Hospital to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Hospital to maintain debt service and sinking fund accounts and to maintain specified debt service coverage and liquidity ratios.

- (b) The Hospital issued Hospital Revenue Notes, Series 2005 in the original amount of \$4,000,000. Funds from the issuance of the Hospital Revenue Refunding Bonds, Series 2012, were deposited into an escrow account and were used to pay off the defeased Series 2005 notes principal and interest balances effective July 15, 2012.
- (c) The Hospital issued Hospital Revenue Notes, Series 2004 in the original amount of \$6,000,000. Funds from the issuance of the Hospital Revenue Refunding Bonds, Series 2012, were deposited into an escrow account and were used to pay off the defeased Series 2004 notes principal and interest balances effective July 15, 2012.
- (d) The Hospital entered into a note payable to finance the purchase of certain equipment. The note required monthly payments of \$23,830, including interest at 4.5%, with final payment due April 2013. During 2012, the Hospital paid the note off in full.

A summary of the Hospital's future principal and interest payments as of June 30, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	695,000	175,863	870,863
2015	700,000	167,523	867,523
2016	715,000	155,273	870,273
2017	730,000	141,688	871,688
2018	745,000	125,263	870,263
2019 - 2022	3,205,000	284,295	3,489,295
	<u>\$ 6,790,000</u>	<u>1,049,905</u>	<u>7,839,905</u>

(8) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and in aggregate coverage. These policies provide coverage on a claims-incurred basis covering only those claims which have occurred and are reported to the insurance company.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

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(9) Designated Net Position

Of the \$5,631,425 and \$5,268,803 of unrestricted net position reported in 2013 and 2012, respectively \$3,045,982 and \$2,181,754 has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated funds remain under control of the Board of Trustees, which may as its discretion later use the funds for other purposes.

(10) 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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the Hospital is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$591,032, \$543,878, and \$446,011, respectively.

(11) Commitments and Contingencies

Operating Leases – The Hospital leases certain equipment under operating leases expiring at various dates through 2017. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013, that have initial lease terms in excess of one year:

2014	\$	44,597
2015		44,597
2016		44,597
2017		<u>33,448</u>
	\$	<u>167,239</u>

Patient Service Revenue
For the Years Ended June 30, 2013 and 2012

	2013			2012		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Adult and pediatric	\$ 409,232	--	409,232	344,750	--	344,750
Skilled care	1,592,219	--	1,592,219	1,394,941	--	1,394,941
Intermediate Care	196,985	--	196,985	283,750	--	283,750
	<u>2,198,436</u>	<u>--</u>	<u>2,198,436</u>	<u>2,023,441</u>	<u>--</u>	<u>2,023,441</u>
OTHER PROFESSIONAL SERVICES:						
Emergency	1,116	2,502,379	2,503,495	892	2,286,721	2,287,613
Observation room	--	269,423	269,423	--	319,222	319,222
Operating and recovery room	341,707	1,433,499	1,775,206	117,034	1,233,426	1,350,460
Anesthesiology	9,353	90,955	100,308	7,715	81,875	89,590
Radiology	132,598	1,726,300	1,858,898	135,698	1,612,864	1,748,562
Respiratory therapy	101,521	358,203	459,724	140,192	324,066	464,258
Laboratory	329,088	1,928,043	2,257,131	263,574	1,625,043	1,888,617
Physical therapy	332,093	868,032	1,200,125	291,465	812,618	1,104,083
Speech therapy	33,373	3,627	37,000	15,490	7,183	22,673
Dialysis	--	948,251	948,251	--	3,730,218	3,730,218
Occupational therapy	323,957	96,831	420,788	284,781	99,162	383,943
Pharmacy	936,434	895,170	1,831,604	811,728	913,622	1,725,350
Ambulance	--	1,185,665	1,185,665	--	1,116,276	1,116,276
Clinics	--	2,551,622	2,551,622	--	1,921,431	1,921,431
	<u>2,541,240</u>	<u>14,858,000</u>	<u>17,399,240</u>	<u>2,068,569</u>	<u>16,083,727</u>	<u>18,152,296</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>4,739,676</u>	<u>14,858,000</u>	<u>19,597,676</u>	<u>4,092,010</u>	<u>16,083,727</u>	<u>20,175,737</u>
LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE			<u>(3,592,976)</u>			<u>(5,145,546)</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			16,004,700			15,030,191
PROVISION FOR BAD DEBT			<u>(663,946)</u>			<u>(614,093)</u>
NET PATIENT SERVICE REVENUE			\$ <u>15,340,754</u>			\$ <u>14,416,098</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 22,400	667,105
Dietary	21,128	27,963
Rental income	41,480	22,713
Grants	11,902	20,216
Gift shop	13,217	14,450
Miscellaneous	74,527	54,536
	<u>\$ 184,654</u>	<u>806,983</u>

See accompanying independent auditor's report

Departmental Expenses
For the Years Ended June 30, 2013 and 2012

	2013				2012			
	Salaries and Wages	Professional Fees and Purchased Services	Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Other	Total
NURSING SERVICES:								
Adults and pediatrics	\$ 1,464,494	--	184,276	1,648,770	1,599,022	575	194,106	1,793,703
Operating room	156,229	278,070	331,506	765,805	117,569	164,944	324,863	607,376
Emergency service	597,843	362,564	61,568	1,021,975	555,116	276,302	66,498	897,916
Ambulance	513,830	2,366	28,134	544,330	515,136	1,960	19,167	536,263
	<u>2,732,396</u>	<u>643,000</u>	<u>605,484</u>	<u>3,980,880</u>	<u>2,786,843</u>	<u>443,781</u>	<u>604,634</u>	<u>3,835,258</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	286,415	67,300	303,838	657,553	275,832	70,811	256,397	603,040
Radiology	169,803	392,886	29,813	592,502	173,489	552,742	18,602	744,833
Respiratory therapy	129,972	21,942	9,680	161,594	190,310	29,183	14,748	234,241
Pharmacy	63,370	363,559	521,564	948,493	61,214	291,591	460,998	813,803
Physical therapy	--	408,221	14,104	422,325	--	402,924	4,618	407,542
Speech therapy	--	14,358	--	14,358	--	9,382	--	9,382
Dialysis	30,678	12,332	39,884	82,894	98,014	55,046	197,887	350,947
Occupational therapy	--	143,635	--	143,635	--	149,157	--	149,157
Clinic	986,914	38,672	97,442	1,123,028	845,728	183,992	96,965	1,126,685
Health information management	222,630	38,435	35,138	296,203	221,252	22,153	10,559	253,964
	<u>1,889,782</u>	<u>1,501,340</u>	<u>1,051,463</u>	<u>4,442,585</u>	<u>1,865,839</u>	<u>1,766,981</u>	<u>1,060,774</u>	<u>4,693,594</u>
GENERAL SERVICES:								
Plant operation and maintenance	169,682	12,272	310,804	492,758	170,660	12,432	291,939	475,031
Dietary	191,890	38,877	84,106	314,873	176,131	36,282	87,454	299,867
Housekeeping	126,217	33,323	34,831	194,371	127,472	27,513	22,111	177,096
Central supply	52,104	--	--	52,104	46,645	--	--	46,645
	<u>539,893</u>	<u>84,472</u>	<u>429,741</u>	<u>1,054,106</u>	<u>520,908</u>	<u>76,227</u>	<u>401,504</u>	<u>998,639</u>
ADMINISTRATIVE SERVICES	<u>1,573,211</u>	<u>432,896</u>	<u>680,234</u>	<u>2,686,341</u>	<u>1,487,244</u>	<u>421,685</u>	<u>629,280</u>	<u>2,538,209</u>
NONDEPARTMENTAL:								
Lifeline	--	5,806	11,135	16,941	--	5,861	9,381	15,242
Group health and life	--	--	958,404	958,404	--	--	886,337	886,337
FICA	--	--	463,916	463,916	--	--	507,754	507,754
IPERS	--	--	591,032	591,032	--	--	543,878	543,878
Depreciation and amortization	--	--	1,150,133	1,150,133	--	--	1,297,192	1,297,192
Interest	--	--	170,000	170,000	--	--	462,609	462,609
Insurance	--	--	152,666	152,666	--	--	182,050	182,050
	<u>--</u>	<u>5,806</u>	<u>3,497,286</u>	<u>3,503,092</u>	<u>--</u>	<u>5,861</u>	<u>3,889,201</u>	<u>3,895,062</u>
TOTAL EXPENSES	<u>\$ 6,735,282</u>	<u>2,667,514</u>	<u>6,264,208</u>	<u>15,667,004</u>	<u>6,660,834</u>	<u>2,714,535</u>	<u>6,585,393</u>	<u>15,960,762</u>

See accompanying independent auditor's report

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2013 and 2012

ANALYSIS OF AGING:

Days Since Discharge	2013		2012	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,874,658	47 %	1,882,400	56 %
31 - 60	726,439	18	664,131	20
61 - 90	366,592	9	263,403	8
91 - 120	303,530	8	241,348	7
121 and over	695,921	18	332,777	10
	<u>3,967,140</u>	<u>100 %</u>	<u>3,384,059</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(529,725)		(282,896)	
Allowance for contractual adjustments	<u>(161,032)</u>		<u>(552,650)</u>	
	<u>\$ 3,276,383</u>		<u>2,548,513</u>	

	2013	2012
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 282,896	220,000
Provision of uncollectible accounts	903,850	691,910
Recoveries of accounts previously written off	(115,508)	(87,501)
Accounts written off	<u>(541,513)</u>	<u>(541,513)</u>
Balance, end of year	<u>\$ 529,725</u>	<u>282,896</u>

See accompanying independent auditor's report

Inventory/Prepaid Expenses
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Pharmacy	\$ 134,322	148,790
Operating room	23,123	24,997
Laboratory	30,466	17,283
Other	<u>102,023</u>	<u>115,292</u>
	<u>\$ 289,934</u>	<u>306,362</u>
	<u>2013</u>	<u>2012</u>
PREPAID EXPENSES:		
Insurance	\$ 69,323	94,015
Maintenance contracts	<u>188,670</u>	<u>122,587</u>
	<u>\$ 257,993</u>	<u>216,602</u>

See accompanying independent auditor's report

Financial and Statistical Highlights
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Patient days:		
Adult and pediatric	566	476
Swing-bed -		
Skilled	2,322	2,088
Intermediate	1,231	1,766
	<u>4,119</u>	<u>4,330</u>
Patient discharges:		
Adult and pediatric	181	158
Swing-bed -		
Skilled	131	157
Intermediate	21	28
	<u>333</u>	<u>343</u>
Average length of stay (based on discharge days):		
Adult and pediatric	3.13 days	3.01 days
Swing-bed -		
Skilled	17.73 days	13.30 days
Intermediate	58.62 days	63.07 days
Surgical procedures	362	351
Emergency room visits	3,316	3,363
Number of employees - full-time equivalents	164.12	172.67

See accompanying independent auditor's report

**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**

To the Board of Trustees
Marengo Memorial Hospital
Marengo, Iowa:

We have audited 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, the financial statements of Marengo Memorial Hospital (Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Item II-B-13 to be a significant deficiency.

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*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 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.

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 20, 2013.

Schedule of Findings and Responses
For the Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

- An unmodified opinion was issued on the financial statements.
- One material weakness and one significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No matters were reported.

Material Weakness

II-A-13

Criteria: The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

Condition: We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.

Effect: An audit entry was required to adjust third party payor settlements.

Cause: Management did not perform an estimate as of fiscal year end.

Recommendation: The Hospital should review and revise its process over its third party payor settlement estimate.

Response: The Hospital concurs with the recommendation.

Conclusion: Response accepted.

Significant Deficiency

II-B-13

Criteria: Proper segregation of duties ensures an adequate internal control structure.

Condition: We identified instances where a lack of segregation of duties exists.

Effect: Without proper segregation of duties, a greater risk of fraud and defalcation may exist.

Cause: Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this control deficiency and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Schedule of Findings and Responses
For the Year Ended June 30, 2013

Part III: Other Findings Related to Required Statutory Reporting

III-A-13

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-B-13

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

III-C-13

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-D-13

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

III-E-13

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-F-13

Publishing Requirements: An annual condensed statement of total receipts and expenditures is to be published in a newspaper of the city in which the Hospital is located according to Chapter 392.6 of the Code of Iowa.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

Finding	Finding title	Status	If not corrected, corrective action plan or other explanation
II-A-12	Management estimates	Not corrected	Management is aware of this deficiency in its estimate process and performed interim estimates during the year. However, an estimate was not performed as of the fiscal year end resulting in an audit journal entry. Similar finding reported at II-A-13.
II-B-12	Segregation of duties in the accounting and data processing areas.	Not corrected	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-B-13.

Marengo Memorial Hospital
A Component Unit of the City of Marengo, Iowa

Audit Staff
For the Year Ended June 30, 2013

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Vanessa L. Paswaters, Staff Auditor

Douglas S. Roland, Staff Auditor