

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

**Basic Financial Statements and Supplementary Information**  
June 30, 2014 and 2013

**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, 2014**

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees:</b>		
	Cindy Tindal - Chairman	March 2015
	Jeffrey Ritchie – Vice Chair	March 2017
	Randy Fry - Vice Chair	March 2016
	Daryl Russ	March 2017
	Adam Grier - Secretary / Treasurer	March 2015
	Lindsey Jergens	March 2017
	Wayne Parizek	March 2016
<b>Hospital Officials:</b>		
	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 the City of Marengo, Iowa, as of and for the years ended June 30, 2014 and 2013 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, 2014 and 2013, 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.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **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 23, 2014 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 23, 2014.

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

**Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

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**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, 2014 and 2013. This discussion and analysis should be read in conjunction with the accompanying financial statements.

**Financial Highlights**

The Hospital's net position increased in 2014 by \$643,156 or 8%. In 2013, net position increased by \$182,617 or 2%.

The Hospital reported an operating income in 2014 of \$422,728 compared to an operating income in 2013 of \$104,950.

The Hospital's nonoperating revenues decreased by \$156,836 in 2014 compared to 2013.

**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, deferred outflows, liabilities, and deferred inflows and provide information about the nature and amounts of investments in resources and the obligations of Hospital creditors. 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 two 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, 2014 and 2013**

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**The Hospital's Net Position**

The Hospital's net position is the difference between assets, deferred outflows, liabilities, and deferred inflow. The Hospital's net position increased this past year by \$643,156 or 8% as seen below.

	<u>2104</u>	<u>2013</u> <u>Restated</u>	<u>2012</u>	<u>2014-2013</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
<b>Assets:</b>					
Total current assets	\$ 5,945,011	5,234,316	4,825,270	710,695	14%
Capital assets, net	10,298,417	8,201,689	8,891,106	2,096,728	26%
Assets limited as to use	1,863,694	3,192,583	2,234,158	(1,328,889)	-42%
Other non-current assets	265,388	--	299,597	265,388	100%
Total assets	<u>18,372,510</u>	<u>16,628,588</u>	<u>16,250,131</u>	<u>1,743,922</u>	10%
<b>Liabilities:</b>					
Long-term debt	7,584,743	6,790,000	7,490,000	794,743	12%
Estimated third-party payor settlements	665,500	843,099	--	(177,599)	-21%
Other current and non-current liabilities	<u>1,572,272</u>	<u>1,088,650</u>	<u>1,035,909</u>	<u>483,622</u>	44%
Total liabilities	<u>9,822,515</u>	<u>8,721,749</u>	<u>8,525,909</u>	<u>1,100,766</u>	13%
<b>Net Position:</b>					
Net position	<u>\$ 8,549,995</u>	<u>7,906,839</u>	<u>7,724,222</u>	<u>643,156</u>	8%

**Operating Results and Changes in Net Position**

In 2014, the Hospital's operating income was \$422,728 compared to \$104,950 in 2013. The total 2014 net position increased by \$643,156 or 8% as shown below. The majority of this increase is caused by an increase in operating revenue.

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

**Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>2014-2013 Change</u>	<u>Percent Change</u>
<b>Operating revenue:</b>					
Net patient service revenue	\$ 17,157,973	16,004,700	15,030,191	1,153,273	7%
Provision for bad debt	(647,991)	(663,946)	(614,093)	15,955	-2%
Other operating revenue	1,017,891	184,654	806,983	833,237	451%
Gain on sale of capital assets	42,497	216,586	--	42,497	20%
Total operating revenue	<u>17,570,370</u>	<u>15,741,994</u>	<u>15,223,081</u>	<u>1,828,376</u>	12%
<b>Expenses:</b>					
Salaries and employee benefits	9,480,343	8,896,688	8,730,624	583,655	7%
Purchased services and other	6,168,767	5,450,183	5,470,337	718,584	13%
Depreciation and amortization	1,283,803	1,120,173	1,297,192	163,630	15%
Interest	214,729	170,000	462,609	44,729	26%
Total expenses	<u>17,147,642</u>	<u>15,637,044</u>	<u>15,960,762</u>	<u>1,510,598</u>	10%
<b>Operating income (loss)</b>	<u>422,728</u>	<u>104,950</u>	<u>(737,681)</u>	<u>317,778</u>	303%
<b>Nonoperating revenue:</b>					
Property taxes	--	46,244	41,581	(46,244)	-100%
Ambulance subsidy	176,446	181,411	158,054	(4,965)	-3%
Investment income	43,482	75,185	110,698	(31,703)	-42%
Transfer from related foundation	500	74,424	15,142	(73,924)	-99%
Total nonoperating revenue, net	<u>220,428</u>	<u>377,264</u>	<u>325,475</u>	<u>(156,836)</u>	-42%
Increase (decrease) in net position	<u>643,156</u>	<u>482,214</u>	<u>(412,206)</u>	<u>160,942</u>	33%
Net position – beginning of year, as previously reported	7,906,839	7,724,222	8,136,428	182,617	2%
Cumulative effect of accounting change	--	(299,597)	--	299,597	-100%
Net position, beginning of year, as restated	<u>7,906,839</u>	<u>7,424,625</u>	<u>8,136,428</u>	<u>482,214</u>	6%
Net position – end of year	<u>\$ 8,549,995</u>	<u>7,906,839</u>	<u>7,724,222</u>	<u>643,156</u>	8%

**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 the dialysis unit

A significant component of the Hospital's costs is expenses for salaries and benefits. In 2014 salaries and benefit costs totaled \$9,480,343. In 2013 salaries and benefit costs totaled \$8,896,688. In 2014 the Hospital reviewed its compensation structure resulting in market rate increases for a majority of its departments. In 2014, the Hospital also saw an increase in the number of full time equivalent employees as a result of its opening of the Williamsburg Family Clinic.

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.

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

**Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

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**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied for the Hospital, ambulance subsidies, interest revenue, and transfers from a related foundation. Nonoperating revenue decreased \$156,836 in 2014 as the Hospital no longer requests property tax receipts.

**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 2014 and 2013 due to increases in estimated third-party payor settlements.

**Capital Asset and Debt Administration**

**Capital Assets**

The Hospital had \$10,298,417 and \$8,201,689 invested in capital assets, net of accumulated depreciation, at the end of June 30, 2014 and 2013, respectively. During 2014, the Hospital constructed and opened the Williamsburg Family Clinic at a cost of approximately \$1,700,000 and underwent a computer system conversion at a cost of approximately \$1,400,000. 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**

The Hospital had \$7,584,743 and \$6,790,000 in long-term debt and capital lease obligations at the end of June 30, 2014 and 2013, respectively. In 2014, the Hospital entered into an infrastructure loan and two capital leases totaling \$1,739,888. There were no new obligations in 2013 but 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 2014 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 2014 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.

**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, 2014 and 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013 Restated</b>
Current assets:		
Cash and cash equivalents	\$ 1,531,891	709,344
Assets limited as to use or restricted, current portion	713,731	697,149
Receivables -		
Patient receivables, net of estimated uncollectible accounts of \$312,254 and \$529,725 in 2014 and 2013, respectively	2,987,676	3,276,383
Other	108,527	3,513
Inventories	340,742	289,934
Prepaid expenses	262,444	257,993
Total current assets	<u>5,945,011</u>	<u>5,234,316</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	1,863,694	3,192,583
Capital assets, net	10,298,417	8,201,689
Other assets	265,388	--
Total assets	<u>18,372,510</u>	<u>16,628,588</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	1,833,735	695,000
Accounts payable -		
Operating	474,950	336,350
Capital assets	155,439	--
Accrued salaries, vacation and benefits payable	928,152	750,151
Accrued interest payable	13,731	2,149
Estimated third-party payor settlements	665,500	843,099
Total current liabilities	<u>4,071,507</u>	<u>2,626,749</u>
Long-term liabilities,		
Long-term debt, net of current portion	<u>5,751,008</u>	<u>6,095,000</u>
Total liabilities	<u>9,822,515</u>	<u>8,721,749</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	3,842,787	2,545,051
Unrestricted	<u>4,707,208</u>	<u>5,361,788</u>
Total net position	<u>\$ 8,549,995</u>	<u>7,906,839</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u> <u>Restated</u>
<b>OPERATING REVENUE:</b>		
Net patient service revenue before provision for bad debt	\$ 17,157,973	16,004,700
Provision for bad debt	(647,991)	(663,946)
Net patient service revenue	16,509,982	15,340,754
Other operating revenue	1,017,891	184,654
Gain on sale of capital assets	42,497	216,586
Total operating revenue	<u>17,570,370</u>	<u>15,741,994</u>
<b>EXPENSES:</b>		
Salaries	7,234,108	6,735,282
Employee benefits	2,246,235	2,161,406
Professional fees and purchased services	2,902,722	2,667,514
Supplies and other	3,166,216	2,630,003
Insurance	99,829	152,666
Depreciation and amortization	1,283,803	1,120,173
Interest	214,729	170,000
Total expenses	<u>17,147,642</u>	<u>15,637,044</u>
<b>OPERATING INCOME</b>	<u>422,728</u>	<u>104,950</u>
<b>NONOPERATING REVENUE:</b>		
County tax revenues	--	46,244
Ambulance subsidy	176,446	181,411
Investment income	43,482	75,185
Transfer from related foundation	500	74,424
Nonoperating revenues	<u>220,428</u>	<u>377,264</u>
<b>INCREASE IN NET POSITION</b>	<u>643,156</u>	<u>482,214</u>
NET POSITION, beginning of year, as previously reported	7,906,839	7,724,222
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 15)	--	(299,597)
NET POSITION, beginning of year, as restated	<u>7,906,839</u>	<u>7,424,625</u>
NET POSITION, end of year	<u>\$ 8,549,995</u>	<u>7,906,839</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u> <u>Restated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 16,621,090	15,882,689
Cash paid for employee salaries and benefits	(9,567,730)	(8,852,351)
Cash paid to suppliers and contractors	(6,085,426)	(5,466,579)
Other receipts and payments, net	909,364	184,654
	<u>1,877,298</u>	<u>1,748,413</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfer from related foundation	500	74,424
Ambulance subsidy	176,446	181,411
County tax receipts	3,513	62,218
	<u>180,459</u>	<u>318,053</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets, net	(2,319,210)	(514,170)
Proceeds from sale of capital assets	42,500	300,000
Interest payments	(203,147)	(170,163)
Receipts from issuance of long-term debt	834,003	--
Principal payments on long-term debt	(945,145)	(700,000)
	<u>(2,590,999)</u>	<u>(1,084,333)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in investments and assets limited as to use or restricted, net	1,312,307	(953,262)
Investment income	43,482	75,185
	<u>1,355,789</u>	<u>(878,077)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>822,547</b>	<b>104,056</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>709,344</u></b>	<b><u>605,288</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 1,531,891</u></b>	<b><u>709,344</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital assets acquired under capital lease obligations	\$ <u>905,885</u>	<u>--</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u> <u>Restated</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 422,728	104,950
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,283,803	1,120,173
Interest expense included in operating expenses	214,729	170,000
Gain on sale of capital assets	(42,497)	(216,586)
(Increase) decrease in current assets -		
Receivables - patients	288,707	(727,870)
Receivables - other	(108,527)	--
Inventories	(50,808)	16,428
Prepaid expenses	(4,451)	(41,391)
Estimated third-party payor settlements	--	426,706
Increase in other assets	(265,388)	--
Increase (decrease) in current liabilities -		
Accounts payable - operating	138,600	8,567
Accrued salaries, vacation and benefits payable	178,001	44,337
Estimated third-party payor settlements	(177,599)	843,099
Net cash provided by operating activities	<u>\$ 1,877,298</u>	<u>1,748,413</u>

*See notes to financial statements*

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

**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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**(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 the Hospital. 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.

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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. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when incurred.

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 increase in net position unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded increase in net position unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2014 and 2013, there were no investment declines that were determined to be other than temporary.

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*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. Property taxes receivable at June 30, 2014 and 2013 were \$-0- and \$3,513, respectively, and are included in other receivables on the statements of net position.

*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. 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.

*N. 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.

*O. 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.

*P. 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.

*Q. 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.

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R. *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.

S. *County Tax Revenue*

Taxes are included in nonoperating revenue 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.

T. *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.

U. *Change in Accounting Principle*

During 2014, the Hospital adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$299,597 in net position as of the beginning of 2013 (see Note 15).

V. *Subsequent Events*

The Hospital considered events occurring through September 23, 2014 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, 2014 and 2013 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 510,827	71,871
Certificates of deposit	490,803	2,974,111
	<u>1,001,630</u>	<u>3,045,982</u>
By Debt Agreements:		
Cash and cash equivalents	739,735	81,524
Certificates of deposit	635,638	557,000
U.S. treasury note	200,422	205,226
	<u>1,575,795</u>	<u>843,750</u>
Total assets limited as to use or restricted	2,577,425	3,889,732
Less amounts required to meet current obligations	<u>713,731</u>	<u>697,149</u>
Long-term portion	<u>\$ 1,863,694</u>	<u>3,192,583</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:

**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, 2012.

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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.

**Commercial** - The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

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

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 4,428,335	4,739,676
Outpatient	13,078,214	12,325,934
Clinics	<u>2,914,128</u>	<u>2,532,066</u>
Total gross patient service revenue	<u>20,420,677</u>	<u>19,597,676</u>
Deductions from gross patient service revenue:		
Medicare	60,426	1,310,195
Medicaid	517,906	361,670
Other payors	2,486,185	1,661,477
Charity care	<u>198,187</u>	<u>259,634</u>
Total deductions from gross patient service revenue	<u>3,262,704</u>	<u>3,592,976</u>
Net patient service revenue before provision for bad debt	<u>\$ 17,157,973</u>	<u>16,004,700</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.

Revenue from the Medicare and Medicaid programs accounts for approximately 54% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 compared to 53% for Medicare and 6% for Medicaid in 2013. 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. In 2014 and 2013, net patient service revenue increased approximately \$64,000 and \$-0-, respectively, due to removal of allowances previously estimated that are no longer necessary and as a result of final settlement of years that are no longer subject to audits, reviews, and investigations.

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**(4) Other Revenue**

Other revenue for the years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$ 475,000	--
Iowa Department of Health and Human Services	22,400	22,400
Pharmacy revenue – 340B program	265,289	--
Purchasing rebates	116,128	26,416
Dietary	19,051	21,128
Rental income	33,077	41,480
Grants	8,884	11,902
Gift shop	15,697	13,217
Miscellaneous	62,365	48,411
	<u>\$ 1,017,891</u>	<u>184,654</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 undepreciated 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 2015. 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>2014</u>	<u>2013</u>
Medicare Electronic health record incentive payments	\$ 475,000	--
Medicaid Electronic health record incentive payments	22,400	22,400
Total electronic health record incentive payments	<u>\$ 497,400</u>	<u>22,400</u>
Deferred Medicare reimbursement	<u>\$ 1,079,000</u>	<u>462,000</u>

**(5) Composition of Patient Receivables**

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient receivables	\$ 4,045,091	3,967,140
Less estimated third-party contractual adjustments	(745,161)	(161,032)
Less allowance for doubtful accounts	(312,254)	(529,725)
	<u>\$ 2,987,676</u>	<u>3,276,383</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>2014</u>	<u>2013</u>
Medicare	35%	44%
Medicaid	14	7
Other third-party payors	38	28
Private pay	13	21
	<u>100%</u>	<u>100%</u>

**(6) Other Assets**

Other assets held by the Hospital as of June 30, 2014 are related to physician receivables in the amount of \$265,388. Physician receivables are related to student loan repayments made to recruit physicians to the community of Marengo, Iowa. All monies advanced under the employment agreement will be forgiven up to a five year period in which the physician practices in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

**(7) Capital Assets**

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 254,584	--	170,000	424,584
Construction in progress	280,866	3,380,531	(3,592,358)	69,039
Total capital assets, not being depreciated	<u>535,450</u>	<u>3,380,531</u>	<u>(3,422,358)</u>	<u>493,623</u>
Capital assets, being depreciated:				
Land improvements	1,102,461	--	--	1,102,461
Building and leasehold improvements	2,983,817	--	1,087,884	4,071,701
Fixed equipment	5,597,414	--	390,151	5,987,565
Major movable equipment	5,129,955	--	1,944,323	7,074,278
Total capital assets, being depreciated	<u>14,813,647</u>	<u>--</u>	<u>3,422,358</u>	<u>18,236,005</u>
Less accumulated depreciation:				
Land improvements	(468,024)	(63,776)	--	(531,800)
Building and leasehold improvements	(651,768)	(121,274)	--	(773,042)
Fixed equipment	(2,487,052)	(350,698)	--	(2,837,750)
Major movable equipment	(3,540,564)	(748,055)	--	(4,288,619)
Total accumulated depreciation	<u>(7,147,408)</u>	<u>(1,283,803)</u>	<u>--</u>	<u>(8,431,211)</u>
Total capital assets, being depreciated, net	<u>7,666,239</u>	<u>(1,283,803)</u>	<u>3,422,358</u>	<u>9,804,794</u>
Total capital assets, net	<u>\$ 8,201,689</u>	<u>2,096,728</u>	<u>--</u>	<u>10,298,417</u>

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	<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>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>

Construction in progress as of June 30, 2014 consists of architect and forecast costs associated with a planned expansion and renovation project. See Note 16 for further details. 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.

**(8) Long-Term Debt**

Long-term debt activity of the Hospital as of June 30, 2014 and 2013 consisted of the following:

	<u>June 30,</u> <u>2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>
Series 2012 (a)	\$ 6,790,000	--	(695,000)	6,095,000	700,000
Capital lease obligation (b)	--	121,073	(39,214)	81,859	40,347
Note payable (c)	--	834,003	--	834,003	834,003
Capital lease obligation (d)	--	784,812	(210,931)	573,881	259,385
	<u>\$ 6,790,000</u>	<u>1,739,888</u>	<u>(945,145)</u>	<u>7,584,743</u>	<u>1,833,735</u>
	<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

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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 1.75% 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) Capital lease obligation with monthly payments of \$3,411, including interest at 5.71%, through 2016 collateralized by leased equipment with a cost of \$121,073.
- (c) The Hospital entered into a multiple advance loan with Bankers Trust Company not to exceed \$1,400,000 at 4.5% interest. The multiple advance loan is due January 31, 2015 and the Hospital has made only monthly interest payments. Proceeds from the loan are to be used for costs related to the Hospital's computer system conversion.
- (d) Capital lease obligation with monthly payments of \$22,830, including interest at 3.02%, through September 2016 collateralized by leased equipment with a cost of \$784,812.

A summary of the Hospital's future principal and interest payments as of June 30, 2014 is as follows:

Year	Notes and Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,534,003	189,393	299,732	247,357	1,833,735	436,750
2016	715,000	155,272	310,520	5,195	1,025,520	160,467
2017	730,000	141,687	45,488	172	775,488	141,859
2018	745,000	125,262	--	--	745,000	125,262
2019	760,000	106,637	--	--	760,000	106,637
2020 - 2022	2,445,000	177,659	--	--	2,445,000	177,659
	<u>\$ 6,929,003</u>	<u>895,910</u>	<u>655,740</u>	<u>252,724</u>	<u>7,584,743</u>	<u>1,148,634</u>

**(9) 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 per occurrence basis covering those claims which have occurred during the coverage period.

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.

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

**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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**(10) Self-Funded Health Insurance**

Effective January 1, 2014 the Hospital has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Hospital's contributions are deposited into a separate benefit trust account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company.

**(11) Designated Net Position**

Of the \$4,707,208 and \$5,361,788 of unrestricted net position reported in 2014 and 2013, respectively \$1,001,630 and \$3,045,982 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.

**(12) 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 5.95% and 5.78% of their annual salary and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$649,562, \$591,032, and \$543,878, respectively.

**(13) 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, 2014, that have initial lease terms in excess of one year:

2015	\$	44,597
2016		44,597
2017		<u>33,448</u>
	\$	<u>122,642</u>

**(14) Significant Estimates and Concentrations**

*Current Economic Conditions*

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including rising unemployment rates, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

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

**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

**(15) Change in Accounting Principle**

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Hospital restated the ending net position at June 30, 2012 and depreciation expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs	\$ 269,637	(269,637)	--
Depreciation and amortization expense	1,150,133	(29,960)	1,120,173
Increase in net position	452,254	29,960	482,214
Net position, June 30, 2012	7,724,222	(299,597)	7,424,625

**(16) Subsequent Events**

Subsequent to June 30, 2014 the Board of Trustees of Marengo Memorial Hospital approved an application for financing through the United States Department of Agriculture (USDA) to finance an expansion and renovation project for the Hospital. The project consists of approximately 20,000 square feet of expansion and renovation of approximately 34,000 square feet of existing space. The estimated total cost of the project is approximately \$24,600,000 and would primarily be financed with the USDA financing.

**Patient Service Revenue**  
**For the Years Ended June 30, 2014 and 2013**

	2014			2013		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
<b>DAILY PATIENT SERVICES:</b>						
Adult and pediatric	\$ 301,525	--	301,525	409,232	--	409,232
Skilled care	1,422,576	--	1,422,576	1,592,219	--	1,592,219
Intermediate Care	156,125	--	156,125	196,985	--	196,985
	<u>1,880,226</u>	<u>--</u>	<u>1,880,226</u>	<u>2,198,436</u>	<u>--</u>	<u>2,198,436</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Emergency	601	3,068,159	3,068,760	1,116	2,502,379	2,503,495
Observation room	--	119,964	119,964	--	269,123	269,123
Operating and recovery room	441,925	1,529,667	1,971,592	341,707	1,433,799	1,775,506
Anesthesiology	10,261	83,551	93,812	9,353	90,955	100,308
Radiology	105,272	1,973,744	2,079,016	132,598	1,726,300	1,858,898
Respiratory therapy	171,107	385,009	556,116	101,521	358,203	459,724
Laboratory	248,183	1,898,964	2,147,147	329,088	1,928,043	2,257,131
Physical therapy	345,606	894,797	1,240,403	332,093	868,032	1,200,125
Speech therapy	86,482	27,696	114,178	33,373	3,627	37,000
Dialysis	--	(960)	(960)	--	948,251	948,251
Occupational therapy	359,728	118,896	478,624	323,957	96,831	420,788
Pharmacy	778,944	1,655,930	2,434,874	936,434	895,170	1,831,604
Ambulance	--	1,287,153	1,287,153	--	1,185,665	1,185,665
Clinics	--	2,949,772	2,949,772	--	2,551,622	2,551,622
	<u>2,548,109</u>	<u>15,992,342</u>	<u>18,540,451</u>	<u>2,541,240</u>	<u>14,858,000</u>	<u>17,399,240</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>4,428,335</u></b>	<b><u>15,992,342</u></b>	<b><u>20,420,677</u></b>	<b><u>4,739,676</u></b>	<b><u>14,858,000</u></b>	<b><u>19,597,676</u></b>
<b>LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE</b>			<b><u>(3,262,704)</u></b>			<b><u>(3,592,976)</u></b>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>			<b>17,157,973</b>			<b>16,004,700</b>
<b>PROVISION FOR BAD DEBT</b>			<b><u>(647,991)</u></b>			<b><u>(663,946)</u></b>
<b>NET PATIENT SERVICE REVENUE</b>			<b>\$ <u>16,509,982</u></b>			<b>\$ <u>15,340,754</u></b>

See accompanying independent auditor's report

**Other Operating Revenue**  
**For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$ 475,000	--
Iowa Department of Health and Human Services	22,400	22,400
Pharmacy revenue – 340B program	265,289	--
Purchasing rebates	116,128	26,416
Dietary	19,051	21,128
Rental income	33,077	41,480
Grants	8,884	11,902
Gift shop	15,697	13,217
Miscellaneous	62,365	48,411
	<u>\$ 1,017,891</u>	<u>184,654</u>

*See accompanying independent auditor's report*

**Departmental Expenses**  
**For the Years Ended June 30, 2014 and 2013**

	2014				2013 Restated			
	Salaries and Wages	Professional Fees and Purchased		Total	Salaries and Wages	Professional Fees and Purchased		Total
		Services	Other			Services	Other	
<b>NURSING SERVICES:</b>								
Adults and pediatrics	\$ 1,490,082	9,452	142,319	1,641,853	1,464,494	--	184,276	1,648,770
Operating room	183,535	280,441	431,473	895,449	156,229	278,070	331,506	765,805
Emergency service	674,815	351,882	57,731	1,084,428	597,843	362,564	61,568	1,021,975
Ambulance	484,833	445	41,961	527,239	513,830	2,366	28,134	544,330
	<u>2,833,265</u>	<u>642,220</u>	<u>673,484</u>	<u>4,148,969</u>	<u>2,732,396</u>	<u>643,000</u>	<u>605,484</u>	<u>3,980,880</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	277,922	126,094	280,123	684,139	286,415	67,300	303,838	657,553
Radiology	197,081	444,572	27,168	668,821	169,803	392,886	29,813	592,502
Respiratory therapy	143,927	38,180	8,153	190,260	129,972	21,942	9,680	161,594
Pharmacy	74,013	343,531	746,579	1,164,123	63,370	363,559	521,564	948,493
Physical therapy	--	409,724	6,715	416,439	--	408,221	14,104	422,325
Speech therapy	--	59,056	--	59,056	--	14,358	--	14,358
Dialysis	--	--	--	--	30,678	12,332	39,884	82,894
Occupational therapy	--	152,558	--	152,558	--	143,635	--	143,635
Clinic	1,064,973	98,215	141,881	1,305,069	986,914	38,672	97,442	1,123,028
Health information management	232,163	38,154	30,693	301,010	222,630	38,435	35,138	296,203
	<u>1,990,079</u>	<u>1,710,084</u>	<u>1,241,312</u>	<u>4,941,475</u>	<u>1,889,782</u>	<u>1,501,340</u>	<u>1,051,463</u>	<u>4,442,585</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	194,670	31,463	352,171	578,304	169,682	12,272	310,804	492,758
Dietary	196,315	40,091	84,499	320,905	191,890	38,877	84,106	314,873
Housekeeping	125,609	37,838	28,067	191,514	126,217	33,323	34,831	194,371
Central supply	58,060	--	--	58,060	52,104	--	--	52,104
	<u>574,654</u>	<u>109,392</u>	<u>464,737</u>	<u>1,148,783</u>	<u>539,893</u>	<u>84,472</u>	<u>429,741</u>	<u>1,054,106</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,836,110</u>	<u>435,196</u>	<u>921,302</u>	<u>3,192,608</u>	<u>1,573,211</u>	<u>432,896</u>	<u>680,234</u>	<u>2,686,341</u>
<b>NONDEPARTMENTAL:</b>								
Lifeline	--	5,830	10,439	16,269	--	5,806	11,135	16,941
Group health and life	--	--	943,451	943,451	--	--	958,404	958,404
FICA	--	--	508,163	508,163	--	--	463,916	463,916
IPERS	--	--	649,562	649,562	--	--	591,032	591,032
Depreciation and amortization	--	--	1,283,803	1,283,803	--	--	1,120,173	1,120,173
Interest	--	--	214,729	214,729	--	--	170,000	170,000
Insurance	--	--	99,830	99,830	--	--	152,666	152,666
	<u>--</u>	<u>5,830</u>	<u>3,709,977</u>	<u>3,715,807</u>	<u>--</u>	<u>5,806</u>	<u>3,467,326</u>	<u>3,473,132</u>
<b>TOTAL EXPENSES</b>	<u>\$ 7,234,108</u>	<u>2,902,722</u>	<u>7,010,812</u>	<u>17,147,642</u>	<u>6,735,282</u>	<u>2,667,514</u>	<u>6,234,248</u>	<u>15,637,044</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,902,147	47 %	1,874,658	47 %
31 - 60	774,283	19	726,439	18
61 - 90	567,042	14	366,592	9
91 - 120	240,641	6	303,530	8
121 and over	560,978	14	695,921	18
	<u>4,045,091</u>	<u>100 %</u>	<u>3,967,140</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(312,254)		(529,725)	
Allowance for contractual adjustments	<u>(745,161)</u>		<u>(161,032)</u>	
	<u>\$ 2,987,676</u>		<u>3,276,383</u>	

	2014	2013
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 529,725	282,895
Provision of uncollectible accounts	440,229	903,851
Recoveries of accounts previously written off	(116,187)	(115,508)
Accounts written off	<u>(541,513)</u>	<u>(541,513)</u>
Balance, end of year	<u>\$ 312,254</u>	<u>529,725</u>

*See accompanying independent auditor's report*

**Inventory/Prepaid Expenses**  
**For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
INVENTORY:		
Pharmacy	\$ 171,743	134,322
Operating room	29,565	23,123
Laboratory	38,954	30,466
Other	<u>100,480</u>	<u>102,023</u>
	<u>\$ 340,742</u>	<u>289,934</u>
	<u>2014</u>	<u>2013</u>
PREPAID EXPENSES:		
Insurance	\$ --	69,323
Maintenance contracts	<u>262,444</u>	<u>188,670</u>
	<u>\$ 262,444</u>	<u>257,993</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights**  
**For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
Patient days:		
Adult and pediatric	417	566
Swing-bed -		
Skilled	2,101	2,322
Intermediate	1,053	1,231
	<u>3,571</u>	<u>4,119</u>
Total		
	<u>3,571</u>	<u>4,119</u>
Patient discharges:		
Adult and pediatric	147	181
Swing-bed -		
Skilled	135	131
Intermediate	24	21
	<u>306</u>	<u>333</u>
	<u>306</u>	<u>333</u>
Average length of stay (based on discharge days):		
Adult and pediatric	2.83 days	3.13 days
Swing-bed -		
Skilled	15.56 days	17.73 days
Intermediate	43.88 days	58.62 days
Surgical procedures	413	362
Emergency room visits	3,336	3,316
Number of employees - full-time equivalents	176.97	171.18

*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, 2014, 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 23, 2014.

**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-14 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-14 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, 2014 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 23, 2014.

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

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**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-14

<i>Criteria:</i>	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.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust third party payor settlements, to adjust allowances for third party payor contractual adjustments in accounts receivable, to record electronic health record incentive payments, to record note payable liability and corresponding capital assets, and to reconcile cash.
<i>Cause:</i>	Management did not perform third party payor estimates as of fiscal year end and did not properly reconcile capital assets, notes payable and cash as of fiscal year end.
<i>Recommendation:</i>	The Hospital should review and revise its estimate and reconciliation process.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

**Significant Deficiency**

II-B-14

<i>Criteria:</i>	Proper segregation of duties ensures an adequate internal control structure.
<i>Condition:</i>	We identified instances where a lack of segregation of duties exists.
<i>Effect:</i>	Without proper segregation of duties, a greater risk of fraud and defalcation may exist.
<i>Cause:</i>	Due to a limited number of administrative personnel, a lack of segregation of duties exists.
<i>Recommendation:</i>	We recommend the Hospital continue to monitor and improve its segregation of duties.

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

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

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*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.

**Part III: Other Findings Related to Required Statutory Reporting**

**III-A-14**

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-14**

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

**III-C-14**

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-14**

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

**III-E-14**

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-14**

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**

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<b>Finding</b>	<b>Finding title</b>	<b>Status</b>	<b>If not corrected, corrective action plan or other explanation</b>
II-A-13	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-14.
II-B-13	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-14.

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

**Audit Staff**  
**For the Year Ended June 30, 2013**

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**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Vanessa L. Schmidt, Staff Auditor