

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

**Basic Financial Statements and Supplementary Information**  
**June 30, 2015 and 2014**

**Together with Independent Auditor's Report**

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

**Table of Contents**

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	<u>Page</u>
Officials -- June 30, 2015 .....	1
Independent Auditor's Report .....	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis .....	4 – 7
Basic Financial Statements:	
Statements of Net Position June 30, 2015 and 2014 .....	8
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014 .....	9
Statements of Cash Flows For the Years Ended June 30, 2015 and 2014 .....	10 – 11
Notes to Financial Statements June 30, 2015 and 2014.....	12 – 27
Required Supplementary Information:	
Schedule of the Hospital's Proportionate Share of the Net Pension Liability.....	28
Schedule of Hospital Contributions.....	29
Notes to Required Supplementary Information – Pension Liability.....	30
Other Supplementary Information:	
Exhibit 1 – Patient Service Revenue For the Years Ended June 30, 2015 and 2014.....	31
Exhibit 2 – Other Operating Revenue For the Years Ended June 30, 2015 and 2014.....	32
Exhibit 3 – Departmental Expenses For the Years Ended June 30, 2015 and 2014.....	33
Exhibit 4 – Patient Receivables and Allowance for Doubtful Accounts June 30, 2015 and 2014.....	34
Exhibit 5 – Inventory/Prepaid Expenses June 30, 2015 and 2014.....	35
Exhibit 6 – Financial and Statistical Highlights For the Years Ended June 30, 2015 and 2014.....	36
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 .....	37 – 38
Schedule of Findings and Responses .....	39 – 40
Summary Schedule of Prior Audit Findings .....	41
Audit Staff .....	42

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

**Officials**  
**June 30, 2015**

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
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**Board of Trustees:**

	Jeffrey Ritchie – Chairman	March 2017
	Daryl Russ - Vice Chair	March 2017
	Adam Grier - Secretary / Treasurer	March 2018
	Cindy Tindal	March 2018
	Lindsey Jergens	March 2017
	Charles Merritt	March 2016
	Wayne Parizek	March 2016

**Hospital Officials:**

	Barry Goettsch - Chief Executive Officer	Indefinite
	Matt Murphy – Chief Financial 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 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, 2015 and 2014 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 audit 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 opinions.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 15 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. 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 and analysis, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of Hospital contributions on pages 4 through 7 and 28 through 30 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 other supplementary information (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 other supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the 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 25, 2015 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 25, 2015.

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

**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

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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, 2015 and 2014. This discussion and analysis should be read in conjunction with the accompanying financial statements.

**Financial Highlights**

- The Hospital reported an operating income of \$576,839 in 2015, \$637,457 in 2014, and \$274,950 in 2013. The 2014 operating income includes \$497,400 of electronic health record incentive payments whereas 2015 includes \$30,310 and 2013 includes \$22,400.
- The Hospital's net position decreased \$4,218,658 from June 30, 2014 to June 30, 2015, primarily due to the implantation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of \$4,695,817.

**Using This Annual Report**

The Hospital's financial statements consist of three statements: a statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

***Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred inflows and outflows, and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

***Statement Cash Flows***

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

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

**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$4,218,658 or 49% in 2015 compared to 2014 and increased by \$643,156 or 8% in 2014 compared to 2013 as shown in Table 1.

	<u>2015</u>	<u>(not restated) 2014</u>	<u>2013</u>	<u>2015-2014 Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Total current assets	\$ 7,807,483	5,945,011	5,234,316	1,862,472	31%
Capital assets, net	9,677,514	10,298,417	8,201,689	(620,903)	-6%
Assets limited as to use	370,829	1,863,694	3,192,583	(1,492,865)	-80%
Other non-current assets	235,388	265,388	--	(30,000)	-11%
Total assets	<u>18,091,214</u>	<u>18,372,510</u>	<u>16,628,588</u>	<u>(281,296)</u>	<u>-2%</u>
<b>Deferred Outflow of Resources:</b>					
Pension related deferred outflows	1,063,663	--	--	1,063,663	100%
Total assets and deferred outflows	<u>\$ 19,154,877</u>	<u>18,372,510</u>	<u>16,628,588</u>	<u>782,367</u>	<u>4%</u>
<b>Liabilities:</b>					
Long-term debt	\$ 5,763,517	7,584,743	6,790,000	(1,821,226)	-24%
Estimated third-party payor settlements	2,012,629	665,500	--	1,347,129	202%
Other current and non-current liabilities	1,627,894	1,572,272	1,931,749	55,622	4%
Net Pension liability	3,747,855	--	--	3,747,855	100%
Total liabilities	<u>13,151,895</u>	<u>9,822,515</u>	<u>8,721,749</u>	<u>3,329,380</u>	<u>34%</u>
<b>Deferred Inflows of Resources:</b>					
Pension related deferred inflows	1,671,645	--	--	1,671,645	100%
<b>Net Position:</b>					
Net position	<u>4,331,337</u>	<u>8,549,995</u>	<u>7,906,839</u>	<u>(4,218,658)</u>	<u>-49%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 19,154,877</u>	<u>18,372,510</u>	<u>16,628,588</u>	<u>782,367</u>	<u>4%</u>

Year ended June 30, 2015: In fiscal year 2015, the total assets and deferred outflows increased by \$782,367 or 4%. This was primarily caused by the recording of pension related deferred outflows and an increase in accumulated depreciation due to depreciation on capital assets of \$1,475,437. In fiscal year 2015, the total liabilities increased by \$3,329,380 or 34% mainly due to the recording of the Hospital's net pension liability.

Year ended June 30, 2014: In fiscal year 2014, the total assets and deferred outflows increased by \$1,743,922 or 10%. This was primarily caused by an increase in capital assets due to the construction and opening of the Williamsburg Family Clinic as well as significant software purchased to meet meaningful use for its electronic health record system. Total liabilities increased in 2014 due to new long-term debt related to the purchase of the electronic health record system.

**Operating Results and Changes in the Hospital's Net Position**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$4,695,817 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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

**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

The following shows the changes in net position of the Hospital:

	2015	(not restated) 2014	2013	2015-2014 Change	Percent Change
<b>Operating revenue:</b>					
Net patient service revenue	\$ 17,711,636	17,157,973	16,004,700	553,663	3%
Provision for bad debt	(600,144)	(647,991)	(663,946)	47,847	-7%
Other operating revenue	542,704	1,017,891	184,654	(475,187)	-47%
Gain (loss) on sale of capital assets	(4,538)	42,497	216,586	(47,035)	-111%
Total operating revenue	<u>17,649,658</u>	<u>17,570,370</u>	<u>15,741,994</u>	<u>79,288</u>	0%
<b>Expenses:</b>					
Salaries and employee benefits	10,016,129	9,480,343	8,896,688	535,786	6%
Purchased services and other	5,581,253	6,168,767	5,450,183	(587,514)	-10%
Depreciation and amortization	1,475,437	1,283,803	1,120,173	191,634	15%
Total expenses	<u>17,072,819</u>	<u>16,932,913</u>	<u>15,467,044</u>	<u>139,906</u>	1%
<b>Operating income</b>	<u>576,839</u>	<u>637,457</u>	<u>274,950</u>	<u>(60,618)</u>	-10%
<b>Nonoperating revenue (expense):</b>					
Interest	(204,265)	(214,729)	(170,000)	10,464	-5%
Property taxes	--	--	46,244	--	--
Ambulance subsidy	--	176,446	181,411	(176,446)	-100%
Investment income	28,263	43,482	75,185	(15,219)	-35%
Transfer from related foundation	76,322	500	74,424	75,822	15164%
Total nonoperating revenue (expense), net	<u>(99,680)</u>	<u>5,699</u>	<u>207,264</u>	<u>(105,379)</u>	-1849%
Increase in net position	477,159	643,156	482,214	(165,997)	-26%
Net position, beginning of year, as restated	3,854,178	7,906,839	7,424,625	(4,052,661)	-51%
Net position, end of year	<u>\$ 4,331,337</u>	<u>8,549,995</u>	<u>7,906,839</u>	<u>(4,218,658)</u>	-49%

**Operating Income**

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

The primary components impacting operating income are as follows:

- Year ended June 30, 2015 - Salaries and benefit costs totaled \$10,016,129 in 2015 compared to \$9,480,343 in 2014. In 2014 the Hospital reviewed its compensation structure resulting in market rate increases for a majority of its departments in 2014 and 2015. In 2015, the Hospital transferred the operations of the ambulance unit to the City of Marengo which reduced direct operating expenses but also eliminated the ambulance subsidy recorded as part of non-operating revenue (expenses). The 2015 operating income includes \$30,310 of electronic health record incentive payments whereas 2014 includes \$497,400.
- Year ended June 30, 2014 - Salaries and benefit costs totaled \$9,480,343 in 2014 compared to \$8,896,688 in 2013. 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. During 2013, the Hospital sold its dialysis unit which greatly impacted fiscal year 2014 Medicare/Medicaid cost report settlements and other third party contractual relationships. The 2014 operating income includes \$497,400 of electronic health record incentive payments whereas 2013 only includes \$22,400.

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, 2015 and 2014**

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**Nonoperating Revenue and Expenses**

Nonoperating revenue (expenses) consist primarily of interest expense and property taxes levied for the Hospital, ambulance subsidies, interest revenue, and transfers from a related foundation. Nonoperating revenue decreased \$105,379 in 2015 as the Hospital no longer requests property tax receipts or an ambulance subsidy.

**Cash Flows**

Year ended June 30, 2015: The Hospital's cash increased by \$2,304,758 in 2015 as compared to 2014. The primary reason for the increase is the operating income generated in 2015 (net of depreciation expense) and the reduction in the amount of capital assets purchased in 2015 compared to 2014. The Hospital saw an increase in principal payments on long-term debt as it paid off the note payable related to its electronic health record system with the electronic health record incentive proceeds received during 2015.

Year ended June 30, 2014: The Hospital's cash increased by \$822,547 in 2014 as compared to 2013. The primary reason for the lower increase in cash compared to 2015 is the cash basis purchase of capital assets of \$2,319,210 in 2014 compared to \$1,015,511 in 2015. Capital asset purchases in 2014 included electronic health record assets as well as the construction and opened the Williamsburg Family Clinic. In 2014, the Hospital did obtain long-term debt related to its electronic health record system purchases.

**Capital Assets**

The Hospital had \$9,677,514 and \$10,298,417 invested in capital assets, net of accumulated depreciation, at the end of June 30, 2015 and 2014, 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. Fiscal year 2015 depreciation expense increased from fiscal year 2014 as a result of the depreciation of these new assets.

**Debt**

The Hospital had \$5,763,517 and \$7,584,743 in long-term debt and capital lease obligations at the end of June 30, 2015 and 2014, respectively. In 2014, the Hospital entered into an infrastructure loan and two capital leases totaling \$1,739,888. There were limited new obligations in 2015 but significant payments were made as the Hospital paid off the note payable related to its electronic health record system with the electronic health record incentive proceeds received during 2015.

**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 Goettsch, 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, 2015 and 2014**

<b>ASSETS</b>	<b>2015</b>	<b>(not restated) 2014</b>
Current assets:		
Cash and cash equivalents	\$ 3,836,649	1,531,891
Assets limited as to use or restricted, current portion	716,209	713,731
Receivables -		
Patient receivables, net of allowance for doubtful accounts of \$328,026 and \$312,254 in 2015 and 2014, respectively	2,526,737	2,987,676
Other	54,736	108,527
Inventories	397,973	340,742
Prepaid expenses	275,179	262,444
Total current assets	<u>7,807,483</u>	<u>5,945,011</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	370,829	1,863,694
Capital assets, net	9,677,514	10,298,417
Other assets	235,388	265,388
Total assets	<u>18,091,214</u>	<u>18,372,510</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	<u>1,063,663</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 19,154,877</u>	<u>18,372,510</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,022,618	1,833,735
Accounts payable -		
Operating	474,059	474,950
Capital assets	--	155,439
Accrued salaries, vacation and benefits payable	1,137,626	928,152
Accrued interest payable	16,209	13,731
Estimated third-party payor settlements	2,012,629	665,500
Total current liabilities	<u>4,663,141</u>	<u>4,071,507</u>
Long-term liabilities:		
Long-term debt, net of current portion	4,740,899	5,751,008
Net pension liability	3,747,855	--
Total liabilities	<u>13,151,895</u>	<u>9,822,515</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related deferred inflows	<u>1,671,645</u>	<u>--</u>
<b>Commitments and contingencies</b>		
<b>NET POSITION</b>		
Net investment in capital assets	4,922,557	3,752,234
Unrestricted	(591,220)	4,797,761
Total net position	<u>4,331,337</u>	<u>8,549,995</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,154,877</u>	<u>18,372,510</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, 2015 and 2014**

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 17,711,636	17,157,973
Provision for bad debt	(600,144)	(647,991)
Net patient service revenue	17,111,492	16,509,982
Other operating revenue	542,704	1,017,891
Gain (loss) on sale of capital assets	(4,538)	42,497
Total operating revenue	<u>17,649,658</u>	<u>17,570,370</u>
EXPENSES:		
Salaries	7,910,698	7,234,108
Employee benefits	2,105,431	2,246,235
Professional fees and purchased services	2,689,474	2,902,722
Supplies and other	2,799,500	3,166,216
Insurance	92,279	99,829
Depreciation and amortization	1,475,437	1,283,803
Total expenses	<u>17,072,819</u>	<u>16,932,913</u>
OPERATING INCOME	<u>576,839</u>	<u>637,457</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	(204,265)	(214,729)
Ambulance subsidy	--	176,446
Investment income	28,263	43,482
Transfer from related foundation	76,322	500
Nonoperating revenue (expense), net	<u>(99,680)</u>	<u>5,699</u>
INCREASE IN NET POSITION	477,159	643,156
NET POSITION, beginning of year, as restated (See Note 15)	<u>3,854,178</u>	<u>7,906,839</u>
NET POSITION, end of year	<u>\$ 4,331,337</u>	<u>8,549,995</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, 2015 and 2014**

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 18,919,560	16,621,090
Cash paid for employee salaries and benefits	(10,116,635)	(9,567,730)
Cash paid to suppliers and contractors	(5,652,110)	(6,085,426)
Other receipts and payments, net	596,495	909,364
Net cash provided by operating activities	<u>3,747,310</u>	<u>1,877,298</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfer from related foundation	76,322	500
Ambulance subsidy	--	176,446
County tax receipts	--	3,513
Net cash provided by noncapital financing activities	<u>76,322</u>	<u>180,459</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets, net	(1,015,511)	(2,319,210)
Proceeds from sale of capital assets	1,000	42,500
Interest payments	(201,787)	(203,147)
Receipts from issuance of long-term debt	70,120	834,003
Principal payments on long-term debt	(1,891,346)	(945,145)
Net cash used in capital and related financing activities	<u>(3,037,524)</u>	<u>(2,590,999)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in investments and assets limited as to use or restricted, net	1,490,387	1,312,307
Investment income	28,263	43,482
Net cash provided by investing activities	<u>1,518,650</u>	<u>1,355,789</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,304,758</b>	<b>822,547</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>1,531,891</u></b>	<b><u>709,344</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 3,836,649</u></b>	<b><u>1,531,891</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital assets acquired under capital lease obligations	\$ --	<u>905,885</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, 2015 and 2014**

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 576,839	637,457
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,475,437	1,283,803
(Gain) loss on sale of capital assets	4,538	(42,497)
Decrease in net pension liability	(1,593,788)	--
Increase in deferred outflows of resources	(417,837)	--
Increase in deferred inflows of resources	1,671,645	--
(Increase) decrease in current assets -		
Receivables - patients	460,939	288,707
Receivables - other	53,791	(108,527)
Inventories	(57,231)	(50,808)
Prepaid expenses	(12,735)	(4,451)
Increase in other assets	30,000	(265,388)
Increase (decrease) in current liabilities -		
Accounts payable - operating	(891)	138,600
Accrued salaries, vacation and benefits payable	209,474	178,001
Estimated third-party payor settlements	1,347,129	(177,599)
	<u>1,347,129</u>	<u>(177,599)</u>
Net cash provided by operating activities	<u>\$ 3,747,310</u>	<u>1,877,298</u>

*See notes to financial statements*

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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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 healthcare 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 healthcare 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 healthcare 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 is 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. Several provisions have been implemented while other provisions are 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, 2015 and 2014**

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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 2015 and 2014, there were no investment declines that were determined to be other than temporary.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

---

*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. 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.

*K. 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.

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.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

---

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.

*L. Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of an unamortized deferred loss on the refinancing of debt as well as unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

*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. Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*O. Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

*P. Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, receivables, and current liabilities approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

*Q. 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.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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*R. 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.

*S. 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.

*T. 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.

*U. 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.

*V. 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.

*W. Reclassifications*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

*X. Subsequent Events*

The Hospital considered events occurring through September 25, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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

The Hospital's deposits in banks at June 30, 2015 and 2014 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.

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Assets limited as to use or restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 131,731	510,827
Certificates of deposit	182,135	490,803
	<u>313,866</u>	<u>1,001,630</u>
By debt agreements:		
Cash and cash equivalents	323,302	739,735
Certificates of deposit	248,166	635,638
U.S. treasury note	201,704	200,422
	<u>773,172</u>	<u>1,575,795</u>
Total assets limited as to use or restricted	1,087,038	2,577,425
Less amounts required to meet current obligations	<u>716,209</u>	<u>713,731</u>
Noncurrent portion	<u>\$ 370,829</u>	<u>1,863,694</u>

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 28,263	43,482

**(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, 2013.

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, 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>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 4,626,121	4,428,335
Outpatient	13,475,232	13,078,214
Clinics	3,417,678	2,914,128
	<u>21,519,031</u>	<u>20,420,677</u>
Deductions from gross patient service revenue:		
Medicare	383,595	60,426
Medicaid	466,506	517,906
Other payors	2,928,786	2,486,185
Charity care	28,508	198,187
	<u>3,807,395</u>	<u>3,262,704</u>
Net patient service revenue before provision for bad debt	\$ <u>17,711,636</u>	<u>17,157,973</u>

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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 46% and 15%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 53% for Medicare and 9% for Medicaid in 2014. 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 2015 and 2014, net patient service revenue increased approximately \$135,000 and \$64,000, 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.

**(4) Other Revenue**

Other revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$ --	475,000
Iowa Department of Health and Human Services	30,310	22,400
Pharmacy revenue – 340B program	312,266	265,289
Purchasing rebates	80,407	116,128
Rental income	41,764	33,077
Dietary	14,324	19,051
Gift shop	7,048	15,697
Grants	6,615	8,884
Miscellaneous	49,970	62,365
	<u>\$ 542,704</u>	<u>1,017,891</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 were 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>2015</u>	<u>2014</u>
Medicare Electronic health record incentive payments	\$ --	475,000
Medicaid Electronic health record incentive payments	30,310	22,400
Total electronic health record incentive payments	<u>\$ 30,310</u>	<u>497,400</u>
Deferred Medicare reimbursement	<u>\$ 675,482</u>	<u>1,079,000</u>

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**(5) Composition of Patient Receivables**

Patient receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient receivables	\$ 3,389,723	4,045,091
Less estimated third-party contractual adjustments	(534,960)	(745,161)
Less allowance for doubtful accounts	<u>(328,026)</u>	<u>(312,254)</u>
	<u>\$ 2,526,737</u>	<u>2,987,676</u>

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	34%	35%
Medicaid	14	14
Other third-party payors	36	38
Private pay	<u>16</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

**(6) Capital Assets**

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	<u>June 30,</u> <u>2014</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2015</u>
Capital assets, not being depreciated:				
Land	\$ 424,584	--	--	424,584
Construction in progress	69,039	860,072	(467,327)	461,784
Total capital assets, not being depreciated	<u>493,623</u>	<u>860,072</u>	<u>(467,327)</u>	<u>886,368</u>
Capital assets, being depreciated:				
Land improvements	1,102,461	--	--	1,102,461
Building and leasehold improvements	4,071,701	--	113,393	4,185,094
Fixed equipment	5,987,565	--	53,122	6,040,687
Major movable equipment	7,074,278	--	234,991	7,309,269
Total capital assets, being depreciated	<u>18,236,005</u>	<u>--</u>	<u>401,506</u>	<u>18,637,511</u>
Less accumulated depreciation:				
Land improvements	(531,800)	(62,825)	--	(594,625)
Building and leasehold improvements	(773,042)	(145,590)	--	(918,632)
Fixed equipment	(2,837,750)	(360,250)	--	(3,198,000)
Major movable equipment	(4,288,619)	(906,772)	60,283	(5,135,108)
Total accumulated depreciation	<u>(8,431,211)</u>	<u>(1,475,437)</u>	<u>60,283</u>	<u>(9,846,365)</u>
Total capital assets, being depreciated, net	<u>9,804,794</u>	<u>(1,475,437)</u>	<u>461,789</u>	<u>8,791,146</u>
Total capital assets, net	<u>\$ 10,298,417</u>	<u>(615,365)</u>	<u>(5,538)</u>	<u>9,677,514</u>

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>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>

Construction in progress as of June 30, 2015 consists of architect and forecast costs associated with a planned expansion and renovation project. See Note 8 for further details. Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$1,475,437 and \$1,283,803, respectively.

**(7) Other Assets**

Other assets held by the Hospital as of June 30, 2015 and 2014 are related to physician receivables in the amount of \$235,388 and \$265,388, respectively. 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 if the physician fails to fulfill their contract responsibilities.

**(8) Long-Term Debt**

Long-term debt activity of the Hospital as of June 30, 2015 and 2014 consisted of the following:

	<u>June 30,</u> <u>2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2015</u>	<u>Due Within</u> <u>One Year</u>
Series 2012 (a)	\$ 6,095,000	--	(700,000)	5,395,000	715,000
Capital lease obligation (b)	81,859	--	(48,995)	32,864	32,864
Note payable (c)	834,003	70,120	(904,123)	--	--
Capital lease obligation (d)	573,881	--	(238,228)	335,653	274,754
	<u>\$ 7,584,743</u>	<u>70,120</u>	<u>(1,891,346)</u>	<u>5,763,517</u>	<u>1,022,618</u>

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

	<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>

- (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. Proceeds from the loan were used for costs related to the Hospital's computer system conversion. The loan was repaid in full during 2015.
- (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, 2015 is as follows:

Year	Notes and Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 715,000	155,273	307,618	7,268	1,022,618	162,541
2017	730,000	141,688	60,899	367	790,899	142,055
2018	745,000	125,263	--	--	745,000	125,263
2019	760,000	106,638	--	--	760,000	106,638
2020	785,000	85,358	--	--	785,000	85,358
2021-2022	1,660,000	92,301	--	--	1,660,000	92,301
	<u>\$ 5,395,000</u>	<u>706,519</u>	<u>368,517</u>	<u>7,635</u>	<u>5,763,517</u>	<u>714,154</u>

During 2015, the Hospital was approved for up to \$25,600,000 in long-term financing through the United States Department of Agriculture (USDA) for an estimated \$24,600,000 expansion and renovation project for the Hospital. The project will consist of approximately 20,000 square feet of expansion and approximately 34,000 square feet renovation of existing space with an estimated completion date of May 2018. Short-term interim financing will be obtained during the construction period and will be repaid, along with the Series 2012 bonds, with the \$22.6 million USDA direct loan and \$3.0 million of parity revenue bonds borrowing at an assumed average annual interest rate of 4.5% and 4.0% respectively.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**(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.

**(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) Pension Plan**

Plan Description

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 membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

*Disability and Death Benefits*

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

*Contributions*

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2015 and 2014, pursuant to the required rate, regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$686,100 and \$645,826, respectively.

*Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the Hospital reported a liability of \$3,747,855 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .1027208 percent, which was an increase of .0033597 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$346,120.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 42,540	14,987
Changes of assumptions	172,743	358
Net difference between projected and actual earnings on pension plan investments	--	1,656,300
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	162,280	--
Hospital contributions subsequent to the measurement date	<u>686,100</u>	<u>--</u>
Total	<u>\$ 1,063,663</u>	<u>1,671,645</u>

Deferred outflows of resources related to pensions included \$686,100 resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30,</b>	
2016	\$ (329,445)
2017	(329,445)
2018	(329,445)
2019	(329,445)
2020	<u>23,698</u>
	<u>\$ (1,294,082)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.0 percent
Salary increases (effective June 30, 2014)	4.0 to 17.0 percent, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.5 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 7,367,904	3,747,855	692,668

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$80,025 for legally required employer contributions and \$36,657 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**(12) 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, 2015, that have initial lease terms in excess of one year:

2016	\$ 44,597
2017	<u>33,448</u>
	<u>\$ 78,045</u>

**(13) Risks and Uncertainties**

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

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.

**(14) Deficit Balance**

The Hospital had a deficit unrestricted balance of \$591,220 at June 30, 2015 primarily due to the net pension liability.

**(15) Change in Accounting Principle**

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<b>Net Position</b>
Net position June 30, 2014, as previously reported	\$ 8,549,995
Net pension liability at June 30, 2014	(5,341,643)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>645,826</u>
Net position July 1, 2014, as restated	<u>\$ 3,854,178</u>

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

**Schedule of Hospital's Proportionate Share of Net Pension Liability  
Required Supplementary Information  
June 30, 2015**

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Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)		<u>2015</u>
Hospital's proportion of net pension liability		0.1027208%
Hospital's proportionate share of the net pension liability	\$	3,748
Hospital's covered-employee payroll	\$	7,232
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		51.82%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

\* The amounts presented for each fiscal year were determined as of June 30

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Health Center will present information for those years for which information is available.

*See accompanying independent auditor's report*

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

**Schedule of Hospital Contributions  
Required Supplementary Information  
June 30, 2015**

Iowa Public Employee's Retirement System  
Last 10 Fiscal Years  
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 686	646	589	544	446	446	463	402	305	238
Contributions in relation to the statutorily required contribution	<u>(686)</u>	<u>(646)</u>	<u>(589)</u>	<u>(544)</u>	<u>(446)</u>	<u>(446)</u>	<u>(463)</u>	<u>(402)</u>	<u>(305)</u>	<u>(238)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>								
Hospital's covered-employee payroll	\$ 7,683	7,232	6,795	6,740	6,417	6,707	7,291	6,645	5,304	4,139
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

*See accompanying independent auditor's report*

**Notes to Required Supplementary Information – Pension Liability**  
**June 30, 2015**

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**Notes to Required Supplementary Information – Pension Liability**

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Patient Service Revenue**  
**For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
<b>DAILY PATIENT SERVICES:</b>						
Adult and pediatric	\$ 401,275	--	401,275	301,525	--	301,525
Skilled care	1,257,034	--	1,257,034	1,422,576	--	1,422,576
Intermediate Care	125,170	--	125,170	156,125	--	156,125
	<u>1,783,479</u>	<u>--</u>	<u>1,783,479</u>	<u>1,880,226</u>	<u>--</u>	<u>1,880,226</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Emergency	1,288	3,264,384	3,265,672	601	3,068,159	3,068,760
Observation room	--	263,227	263,227	--	119,964	119,964
Operating and recovery room	367,476	2,035,894	2,403,370	441,925	1,529,667	1,971,592
Anesthesiology	9,376	95,410	104,786	10,261	83,551	93,812
Radiology	165,735	2,454,672	2,620,407	105,272	1,973,744	2,079,016
Respiratory therapy	337,207	405,300	742,507	171,107	385,009	556,116
Laboratory	255,569	1,997,952	2,253,521	248,183	1,898,964	2,147,147
Physical therapy	313,520	1,061,450	1,374,970	345,606	894,797	1,240,403
Speech therapy	60,235	49,461	109,696	86,482	27,696	114,178
Dialysis	--	960	960	--	(960)	(960)
Occupational therapy	311,700	104,169	415,869	359,728	118,896	478,624
Pharmacy	1,020,536	1,733,796	2,754,332	778,944	1,655,930	2,434,874
Ambulance	--	1,315	1,315	--	1,287,153	1,287,153
Clinics	--	3,424,920	3,424,920	--	2,949,772	2,949,772
	<u>2,842,642</u>	<u>16,892,910</u>	<u>19,735,552</u>	<u>2,548,109</u>	<u>15,992,342</u>	<u>18,540,451</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>4,626,121</u></b>	<b><u>16,892,910</u></b>	<b><u>21,519,031</u></b>	<b><u>4,428,335</u></b>	<b><u>15,992,342</u></b>	<b><u>20,420,677</u></b>
<b>LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE</b>			<b><u>(3,807,395)</u></b>			<b><u>(3,262,704)</u></b>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>			<b>17,711,636</b>			<b>17,157,973</b>
<b>PROVISION FOR BAD DEBT</b>			<b><u>(600,144)</u></b>			<b><u>(647,991)</u></b>
<b>NET PATIENT SERVICE REVENUE</b>			<b>\$ <u>17,111,492</u></b>			<b>\$ <u>16,509,982</u></b>

See accompanying independent auditor's report

**Other Operating Revenue**  
**For the Years Ended June 30, 2015 and 2014**

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	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$       --	475,000
Iowa Department of Health and Human Services	30,310	22,400
Pharmacy revenue - 340B program	312,266	265,289
Purchasing rebates	80,407	116,128
Rental income	41,764	33,077
Dietary	14,324	19,051
Gift shop	7,048	15,697
Grants	6,615	8,884
Miscellaneous	49,970	62,365
	<u>\$   542,704</u>	<u>1,017,891</u>

*See accompanying independent auditor's report*

**Departmental Expenses**  
**For the Years Ended June 30, 2015 and 2014**

	2015				2014 (not restated)			
	Salaries and Wages	Professional Fees and Purchased Services	Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Other	Total
<b>NURSING SERVICES:</b>								
Adults and pediatrics	\$ 1,278,618	31,618	202,695	1,512,931	1,490,082	9,452	142,319	1,641,853
Operating room	210,380	292,183	233,205	735,768	183,535	280,441	431,473	895,449
Emergency service	1,059,278	121,268	106,589	1,287,135	674,815	351,882	57,731	1,084,428
Ambulance	3,144	--	65	3,209	484,833	445	41,961	527,239
	<u>2,551,420</u>	<u>445,069</u>	<u>542,554</u>	<u>3,539,043</u>	<u>2,833,265</u>	<u>642,220</u>	<u>673,484</u>	<u>4,148,969</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	263,709	112,350	203,822	579,881	277,922	126,094	280,125	684,141
Radiology	257,330	628,398	31,637	917,365	197,081	444,572	27,167	668,820
Respiratory therapy	176,562	37,276	9,631	223,469	143,927	38,180	8,153	190,260
Pharmacy	150,504	148,062	787,512	1,086,078	74,013	343,531	746,579	1,164,123
Physical therapy	30,654	451,522	6,758	488,934	--	409,724	6,715	416,439
Speech therapy	--	77,331	--	77,331	--	59,056	--	59,056
Occupational therapy	--	131,265	--	131,265	--	152,558	--	152,558
Clinic	1,641,213	44,339	184,605	1,870,157	1,064,973	98,215	141,881	1,305,069
Health information management	262,433	9,938	54,503	326,874	232,163	38,154	30,693	301,010
	<u>2,782,405</u>	<u>1,640,481</u>	<u>1,278,468</u>	<u>5,701,354</u>	<u>1,990,079</u>	<u>1,710,084</u>	<u>1,241,313</u>	<u>4,941,476</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	190,233	19,627	292,333	502,193	194,670	31,463	352,170	578,303
Dietary	206,545	36,960	77,354	320,859	196,315	40,091	84,499	320,905
Housekeeping	140,274	39,218	25,398	204,890	125,609	37,838	28,067	191,514
Central supply	80,187	--	--	80,187	58,060	--	--	58,060
	<u>617,239</u>	<u>95,805</u>	<u>395,085</u>	<u>1,108,129</u>	<u>574,654</u>	<u>109,392</u>	<u>464,736</u>	<u>1,148,782</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,959,634</u>	<u>502,387</u>	<u>702,261</u>	<u>3,164,282</u>	<u>1,836,110</u>	<u>435,196</u>	<u>921,302</u>	<u>3,192,608</u>
<b>NONDEPARTMENTAL:</b>								
Lifeline	--	5,732	8,193	13,925	--	5,830	10,439	16,269
Group health and life	--	--	1,092,204	1,092,204	--	--	943,451	943,451
FICA	--	--	540,046	540,046	--	--	508,163	508,163
IPERS	--	--	346,120	346,120	--	--	649,562	649,562
Depreciation and amortization	--	--	1,475,437	1,475,437	--	--	1,283,803	1,283,803
Insurance	--	--	92,279	92,279	--	--	99,830	99,830
	<u>--</u>	<u>5,732</u>	<u>3,554,279</u>	<u>3,560,011</u>	<u>--</u>	<u>5,830</u>	<u>3,495,248</u>	<u>3,501,078</u>
<b>TOTAL EXPENSES</b>	<u>\$ 7,910,698</u>	<u>2,689,474</u>	<u>6,472,647</u>	<u>17,072,819</u>	<u>7,234,108</u>	<u>2,902,722</u>	<u>6,796,083</u>	<u>16,932,913</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts**  
**For the Years Ended June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,669,063	49 %	1,902,147	47 %
31 - 60	596,404	18	774,283	19
61 - 90	304,581	9	567,042	14
91 - 120	232,474	7	240,641	6
121 and over	587,201	17	560,978	14
	<u>3,389,723</u>	<u>100 %</u>	<u>4,045,091</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(328,026)		(312,254)	
Allowance for contractual adjustments	<u>(534,960)</u>		<u>(745,161)</u>	
	<u>\$ 2,526,737</u>		<u>2,987,676</u>	

	2015	2014
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 312,254	529,725
Provision of uncollectible accounts	636,510	440,229
Recoveries of accounts previously written off	(87,353)	(116,187)
Accounts written off	<u>(533,385)</u>	<u>(541,513)</u>
Balance, end of year	<u>\$ 328,026</u>	<u>312,254</u>

*See accompanying independent auditor's report*

**Inventory/Prepaid Expenses**  
**For the Years Ended June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
INVENTORY:		
Pharmacy	\$ 171,743	134,322
Operating room	29,565	23,123
Laboratory	38,954	30,466
Other	<u>157,711</u>	<u>152,831</u>
	<u>\$ 397,973</u>	<u>340,742</u>
	<u>2015</u>	<u>2014</u>
PREPAID EXPENSES:		
Insurance	\$ 42,972	--
Maintenance contracts	<u>232,207</u>	<u>262,444</u>
	<u>\$ 275,179</u>	<u>262,444</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights**  
**For the Years Ended June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
Patient days:		
Adult and pediatric	564	417
Swing-bed -		
Skilled	1,857	2,101
Intermediate	846	1,053
	<u>3,267</u>	<u>3,571</u>
Total		
Patient discharges:		
Adult and pediatric	193	147
Swing-bed -		
Skilled	131	135
Intermediate	16	24
	<u>340</u>	<u>306</u>
Average length of stay (based on discharge days):		
Adult and pediatric	2.92 days	2.83 days
Swing-bed -		
Skilled	14.18 days	15.56 days
Intermediate	52.88 days	43.88 days
Surgical procedures	459	413
Emergency room visits	3,507	3,336
Number of employees - full-time equivalents	147.07	176.97

*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, 2015, 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 25, 2015.

#### **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-15 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-15 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 25, 2015.

**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2015**

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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.

II-A-15

**Material Weakness**

*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 and unreconciled account difference during the audit that were not initially identified and corrected by the Hospital's internal controls.

*Effect:* An audit entry was required to record the impact of GASB 68 for IPERS, and audit entry was required to reconcile note payable liability and the corresponding capital assets and prepaid expenses for duplicate entries, and reconciling differences were noted within operating cash and accounts payable.

*Cause:* Management did not properly reconcile notes payable, capital assets, prepaid expenses, cash and accounts payable as of fiscal year end. Management was aware of the need to record the impact of GASB 68 for IPERS but did not make the necessary entries as of fiscal year end.

*Recommendation:* The Hospital should review and revise its reconciliation process.

*Response:* The Hospital concurs with the recommendation.

*Conclusion:* Response accepted.

II-B-15

**Significant Deficiency**

*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.

**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2015**

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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-15**

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-15**

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

**III-C-15**

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-15**

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

**III-E-15**

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-15**

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, 2015**

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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-14	Management estimates	Corrected	Corrected
II-B-14	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-15.

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

**Audit Staff**  
**For the Year Ended June 30, 2014**

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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, CPA, Staff Auditor