

**BELMOND COMMUNITY HOSPITAL
D/B/A BELMOND MEDICAL CENTER**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2004 AND 2003

**BELMOND MEDICAL CENTER
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**BELMOND MEDICAL CENTER
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Robson	Chairperson	2006
Steve Been	Vice-Chairperson	2006
Frank Beminio	Secretary	2005
Tom Christianson	Member	2006
Terri Havens	Member	2005

Suzan Brunas	Administrator/CEO	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Belmond Medical Center
Belmond, Iowa

We have audited the accompanying financial statements of Belmond Medical Center as of and for the years ending June 30, 2004 and 2003, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Belmond Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of Belmond Medical Center. The financial statements do not include the financial data for Belmond Medical Center's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of Belmond Medical Center. As a result, the financial statements do not purport to, and do not, present fairly the financial reporting entity of Belmond Medical Center as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

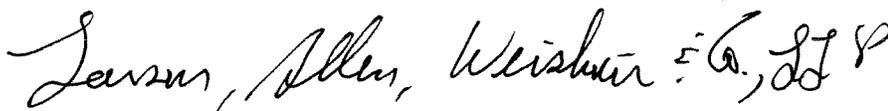
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Belmond Medical Center as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Belmond Medical Center adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003, have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2004 on our consideration of Belmond Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Belmond Medical Center's basic financial statements. The supplementary information from pages 24 to 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 31 has been summarized from the Medical Center's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 23, 2004

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This section of Belmond Medical Center annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Supplementary Information

Financial Highlights

- The Hospital's total assets decreased by \$57,215 or 1.5% in 2004 and decreased \$515,524 or 12.1% in 2003.
- The Hospital's net assets decreased \$68,046 or 2.4%, in 2004 and increased \$53,297 or 1.9% in 2003.
- The Hospital reported negative operating income of \$300,144 in 2004 and \$100,817 in 2003. This represents a decrease in 2004 of \$199,327 and a decrease in 2003 of \$325,331.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also, supporting supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Comparative Statistics

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

There were no significant changes in the Hospital's accounting policies for the year ended June 30, 2004. The Hospital increased its Capitalization Policy threshold from \$1,500 to \$2,500 for the year ended June 30, 2003.

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows has been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Belmont and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 1,291,573	\$ 1,185,361	\$ 1,440,817
Noncurrent Cash and Investments	67,091	36,551	127,301
Capital Assets, Net	2,318,974	2,522,367	2,691,044
Other Assets	19,200	9,774	10,415
Total Assets	<u><u>\$ 3,696,838</u></u>	<u><u>\$ 3,754,053</u></u>	<u><u>\$ 4,269,577</u></u>
Liabilities:			
Total Current Liabilities	\$ 564,843	\$ 513,734	\$ 1,003,909
Long-Term Debt (Less Current Maturities)	334,119	374,397	453,043
Total Liabilities	<u>898,962</u>	<u>888,131</u>	<u>1,456,952</u>
Total Net Assets	<u>2,797,876</u>	<u>2,865,922</u>	<u>2,812,625</u>
Total Liabilities and Net Assets	<u><u>\$ 3,696,838</u></u>	<u><u>\$ 3,754,053</u></u>	<u><u>\$ 4,269,577</u></u>

Asset categories changing significantly during 2004 and 2003 included Current Assets, Noncurrent Cash and Investments, and Other Assets. Current Assets increased by \$106,212 or 8.9% in 2004. This was due to the increase in receivables for patient accounts and grants funds. Current Assets decreased by \$255,456 or 17.7% in 2003. This was largely attributable to cash payments for third party settlement agreements. Noncurrent cash and investments increased in 2004 by \$30,540 or 83.6% due to a contribution to the Ambulance Department. In 2003 it decreased by \$90,750 or 71.3% after purchasing a new ambulance. Other Assets increased in 2004 by \$9,426 or 96.4% due to our increased investment in the Mobile Radiology, LLC.

The current ratio (current assets divided by current liabilities) was 2.3 for 2004 and 2.3 for 2003. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 4,906,515	\$ 4,776,959	\$ 4,627,260
Operating Expenses	<u>5,206,659</u>	<u>4,877,776</u>	<u>4,402,746</u>
Operating Income (Loss)	(300,144)	(100,817)	224,514
Non-Operating Revenues (Expenses)	<u>185,689</u>	<u>34,784</u>	<u>(32,792)</u>
Excess (Deficit) of Revenues over Expenses Before Capital Grants and Contributions	(114,455)	(66,033)	191,722
Capital Grants and Contributions	<u>46,409</u>	<u>119,330</u>	<u>141,502</u>
Increase (Decrease) in Net Assets	(68,046)	53,297	333,224
Net Assets, Beginning of Year	<u>2,865,922</u>	<u>2,812,625</u>	<u>2,479,401</u>
Net Assets, End of Year	<u><u>\$ 2,797,876</u></u>	<u><u>\$ 2,865,922</u></u>	<u><u>\$ 2,812,625</u></u>

Net patient service revenue made up 98.3% in 2004 and 98.8% in 2003 of the Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 6,455,211	\$ 5,998,262	\$ 5,092,535
Contractual Adjustments and Provisions for Bad Debt	<u>1,634,545</u>	<u>1,278,496</u>	<u>526,588</u>
Net Patient Service Revenue	<u><u>\$ 4,820,666</u></u>	<u><u>\$ 4,719,766</u></u>	<u><u>\$ 4,565,947</u></u>
Contractual Adjustments as a Percent of Revenues	<u>25.32%</u>	<u>21.31%</u>	<u>10.34%</u>

Total operating expenses increased \$328,883 or 6.7% in 2004 and increased \$475,030 or 10.8% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 27-28 of the audited financial statements for this information. Employee benefits increased in the areas of health and workers compensations expense 15.4% in 2004 and 6.8% in 2003. Continued growth in outpatient ancillary services for 2004 and 2003 resulted in higher supply and purchased service expenses for the hospital. In 2004, the hospital was able to participate in several grant opportunities and purchased minor equipment for a variety of departments. The Clinic also incurred higher professional fees related to a change in physicians and the transition period involved. In 2003, the hospital saw an increase in plant operation expense related to window replacement. Bad Debt expense also increased 105.1% in 2003.

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Other Operating Revenue increased by \$28,656 or 50.1% in 2004 and decreased by \$4,120 or 6.7% in 2003. Table 4 shows the detail for this line item. The increase in 2004 is attributable to the Meals on Wheels program.

Table 4: Other Operating Revenues

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Ambulance Reimbursement	\$ 18,962	\$ 2,028	\$ 9,303
Cafeteria	40,265	24,327	22,103
Other	25,785	29,759	29,257
Medical Records Transcripts	837	1,079	650
Total Other Operating Revenues	<u>\$ 85,849</u>	<u>\$ 57,193</u>	<u>\$ 61,313</u>

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes. The number of admissions and discharges remained relatively unchanged in 2004 from 2003. The total patient days decreased 32.7% in 2004 and 19.5% in 2003. While there has been some growth in the acute area, there has been a significant decline in the swing bed area over these two years. In 2004, the hospital experienced a 16.2% decline in surgery volumes due to the irregularity of the surgeons.

Table 5: Statistical Data

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient Days			
Acute	401	350	322
Swing Bed	478	956	1,301
Total	<u>879</u>	<u>1,306</u>	<u>1,623</u>
Admissions			
Acute	162	132	136
Swing Bed	60	90	79
Total	<u>222</u>	<u>222</u>	<u>215</u>
Discharges			
Acute	161	133	134
Swing Bed	61	91	78
Total	<u>222</u>	<u>224</u>	<u>212</u>
Average Length of Stay, Acute	<u>3.96</u>	<u>5.83</u>	<u>7.66</u>
Beds			
Acute and Swing	22	22	22
Occupancy Percentage			
Acute, Based on 22 Beds	4.99%	4.36%	4.00%
Swingbed, Based on 22 Beds	5.95%	11.91%	16.16%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Capital Assets

At June 30, 2004 the Hospital had \$2,318,974 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$101,844 to purchase new equipment. In 2003 the Hospital purchased new equipment costing \$164,244.

Long Term Debt

Table 6 shows a summary of the Hospital's long term debt outstanding.

Table 6: Long Term Debt

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Notes Payable	\$ 338,491	\$ 369,790	\$ 577,301
Leases Payable	23,256	31,344	38,499
Less Current Maturities	<u>(27,628)</u>	<u>(26,737)</u>	<u>(162,757)</u>
Total Long Term Debt	<u>\$ 334,119</u>	<u>\$ 374,397</u>	<u>\$ 453,043</u>

Belmond Medical Center had Notes Payable outstanding at June 30, 2004 totaling \$338,491. They bear interest of 5% and mature through May 2020. The obligations under capital lease at June 30, 2004 is \$23,256. Leases require monthly payments of principal and interest at 6.25%-8.86% and mature through February 2007.

Economic Factors

The Hospital's financial position weakened during the current year. Contracts with Third Party Payors have resulted in lower reimbursement and operating expenses continue to increase at a higher rate than revenues. In addition, the current condition of the economy continues to be a concern for Hospital officials. Some of the realities that might potentially become challenges for the Hospital are as follows:

- Expenses will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Belmond Medical Center, 403 First St. SE, Belmond, IA 50421.

**BELMOND MEDICAL CENTER
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 337,836	\$ 304,989
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$84,512; 2003, \$83,581)	781,757	732,443
Other Receivables	44,412	18,090
Inventories	96,199	99,708
Prepaid Expenses	31,369	30,131
Total Current Assets	<u>1,291,573</u>	<u>1,185,361</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Ambulance	67,091	36,551
Total NonCurrent Cash and Investments	<u>67,091</u>	<u>36,551</u>
PROPERTY AND EQUIPMENT, NET	2,318,974	2,522,367
OTHER ASSETS		
Notes Receivable	8,937	6,000
Investment in Mobile Radiology, LLC	10,263	3,774
Total Other Assets	<u>19,200</u>	<u>9,774</u>
Total Assets	<u>\$ 3,696,838</u>	<u>\$ 3,754,053</u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 27,628	\$ 26,737
Accounts Payable	363,903	341,573
Accrued Expenses	165,687	145,424
Third-Party Payor Settlement Payable	7,625	-
Total Current Liabilities	<u>564,843</u>	<u>513,734</u>
LONG-TERM DEBT, Less Current Maturities	<u>334,119</u>	<u>374,397</u>
Total Liabilities	898,962	888,131
 COMMITMENTS AND CONTINGENCIES		
 NET ASSETS		
Invested in Capital Assets Net of Related Debt	1,957,227	2,121,233
Unrestricted	840,649	744,689
Total Net Assets	<u>2,797,876</u>	<u>2,865,922</u>
Total Liabilities and Net Assets	<u>\$ 3,696,838</u>	<u>\$ 3,754,053</u>

BELMOND MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provisions for Bad Debts of \$133,750 in 2004 and \$165,174 in 2003)	\$ 4,820,666	\$ 4,719,766
Other Revenue	85,849	57,193
Total Revenues	4,906,515	4,776,959
EXPENSES		
Salaries and Wages	1,684,574	1,613,916
Employee Benefits	427,559	402,257
Professional Fees	1,468,984	1,414,277
Utilities	72,765	65,862
Management, Legal, and Accounting Fees	230,783	176,496
Insurance	76,995	72,117
Supplies and Miscellaneous	919,628	807,118
Depreciation and Amortization	305,237	301,437
Interest	20,134	24,296
Total Expenses	5,206,659	4,877,776
OPERATING LOSS	(300,144)	(100,817)
NON-OPERATING GAINS (LOSSES)		
Interest Income	3,210	8,131
Contributions	125,946	35,999
Other	56,533	(9,346)
Net Non-Operating Gains	185,689	34,784
DEFICIT OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	(114,455)	(66,033)
Capital Contributions and Grants	46,409	119,330
Increase (Decrease) in Net Assets	(68,046)	53,297
Net Assets Beginning of Year	2,865,922	2,812,625
Net Assets End of Year	\$ 2,797,876	\$ 2,865,922

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 4,778,977	\$ 4,277,815
Cash Paid to Employees	(2,091,272)	(2,006,465)
Cash Paid to Suppliers	(2,770,876)	(2,629,495)
Cash Paid for Interest	(20,732)	(26,511)
Other Receipts and Payments, Net	82,912	57,856
Net Cash Used by Operating Activities	(20,991)	(326,800)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions and Grants	228,888	170,006
Net Cash Provided by Non-Capital Financing Activities	228,888	170,006
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(101,844)	(164,244)
Proceeds from Sale of Capital Assets	-	10,325
Payments on Long-Term Debt	(39,387)	(214,667)
Net Cash Used by Capital and Related Financing Activities	(141,231)	(368,586)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(30,540)	91,999
Investment in Mobile Radiology, LLC	(6,489)	(1,271)
Interest Earned on Investments	3,210	8,131
Net Cash Provided (Used) by Financing Activities	(33,819)	98,859
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,847	(426,521)
Cash and Cash Equivalents - Beginning	307,852	734,373
CASH AND CASH EQUIVALENTS - ENDING	\$ 340,699	\$ 307,852

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Loss from Operations	\$ (300,144)	\$ (100,817)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	305,237	301,437
Amortization of Goodwill	-	2,863
Decrease (Increase) in -		
Patient Receivables	(49,314)	(144,931)
Accounts Receivable - Other	(26,322)	(265)
Note Receivable	(2,937)	(2,200)
Inventories	3,509	(24,442)
Prepaid Expenses	(1,238)	(4,290)
Increase (Decrease) in -		
Accounts Payable	22,330	(64,628)
Accrued Salaries, Wages, Benefits and Other	20,263	7,493
Third Party Payor Settlements Payable	7,625	(297,020)
Net Cash Used by Operating Activities	\$ (20,991)	\$ (326,800)

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Belmond Medical Center ("the Medical Center") is a municipal hospital of the City of Belmond, organized under Chapter 392, Code of Iowa. The Medical Center provides health care services in accordance with a master affiliation agreement with Mercy Medical Center-North Iowa and discussed further in Note 8. Services are provided to residents of Wright and surrounding counties in central Iowa.

A. Reporting Entity

For financial reporting purposes, the Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. The Medical Center has no component units, which meet the Governmental Accounting Standards Board criteria, except for Belmond Hospital Foundation, which the Medical Center has elected to exclude from these financial statements.

B. Basis of Accounting

Basis of accounting 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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Medical Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

The Medical Center has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Medical Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Patient Receivables – The Medical Center provides an allowance for uncollectible accounts based on the allowance method using management’s judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historic experience of the Medical Center. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$84,512 and \$83,581, respectively.

Inventory - Inventory is valued at cost using the first-in, first-out method.

Capital Assets, Net – Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Medical Center’s policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which are board designated funds. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Medical Center for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period. The Medical Center does not have any restricted noncurrent cash and investments at June 30, 2004 and 2003, respectively.

Goodwill - Goodwill of \$49,071 incurred in the purchase of equipment, accounts receivable and medical records of the Steele Memorial Clinic in 1993 was being amortized over a ten year period. Goodwill was fully amortized during the year ended June 30, 2003 and the amortization expense amounted to \$2,863.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Mobile Radiology, LLC – The investment in Mobile Radiology, LLC represents a 5% investment in a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting.

Net Assets – Net assets of the Medical Center are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

E. Contributions

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

F. Restricted Resources

When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Medical Center's principal activity. Other revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating gains. Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. Net Patient Service Revenue

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

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Charity Care

The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2004 and 2003 was \$7,291 and \$510, respectively.

NOTE 2 NET PATIENT SERVICE REVENUES

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

Medicare

The Medical Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center. Medicare cost reports through June 30, 2002 have been audited and settled by the intermediary.

Medicaid

The Medical Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. Medicaid cost reports through June 30 2001 have been audited and settled by the intermediary.

Other

The Medical Center has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUES (CONTINUED)

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 6,455,211	\$ 5,998,262
Contractual Adjustments:		
Medicare	903,757	594,855
Medicaid	99,815	95,987
Provision for Bad Debt	133,750	165,174
Other	497,223	422,480
Total Contractual Adjustments	<u>1,634,545</u>	<u>1,278,496</u>
Net Patient Service Revenues	<u>\$ 4,820,666</u>	<u>\$ 4,719,766</u>

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Medical Center at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 499,593	\$ 551,423
Receivable from Medicare	355,544	240,403
Receivable from Medicaid	11,132	24,198
Total Patient Receivables	<u>866,269</u>	<u>816,024</u>
Less Allowance for Doubtful Accounts	(84,512)	(83,581)
Patient Receivables, Net	<u>\$ 781,757</u>	<u>\$ 732,443</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2004 and 2003 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 Medical Center 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 and the Treasurer of the State of Iowa; 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.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

The Medical Center's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Medical Center at year end. The Medical Center's cash and cash equivalents and investments are all Category 1 which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Medical Center or its agent in the Medical Center's name.

At June 30, 2004 and 2003, the Medical Center had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 417,761</u>	<u>\$ 390,156</u>
Carrying Amount	<u>\$ 404,927</u>	<u>\$ 341,540</u>

The carrying amount of deposits and investments shown above are included in the Medical Center's balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Deposits	<u>\$ 404,927</u>	<u>\$ 341,540</u>
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 337,836	\$ 304,989
Noncurrent Cash and Investments		
Internally Designated for Ambulance	<u>67,091</u>	<u>36,551</u>
	<u>\$ 404,927</u>	<u>\$ 341,540</u>

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years June 30, 2004 and 2003 are as follows:

	June 30, 2003	Additions	(Retirements)	June 30, 2004
Capital Assets				
Land and Land Improvements	\$ 60,848	\$ 21,841	\$ -	\$ 82,689
Building	3,327,450	2,750	-	3,330,200
Fixed Equipment	72,125	7,200	-	79,325
Major Movable Equipment	2,086,515	70,053	-	2,156,568
Totals	<u>\$ 5,546,938</u>	<u>\$101,844</u>	<u>\$ -</u>	<u>\$ 5,648,782</u>
Accumulated Depreciation				
Land Improvements	\$ 10,380	\$ 1,863	\$ -	\$ 12,243
Building	1,370,514	176,220	-	1,546,734
Fixed Equipment	17,135	5,907	-	23,042
Major Movable Equipment	1,626,542	121,247	-	1,747,789
Totals	<u>\$ 3,024,571</u>	<u>\$305,237</u>	<u>\$ -</u>	<u>\$ 3,329,808</u>
	<u>\$ 2,522,367</u>			<u>\$ 2,318,974</u>
	June 30, 2002	Additions	(Retirements)	June 30, 2003
Capital Assets				
Land and Land Improvements	\$ 49,447	\$ 11,401	\$ -	\$ 60,848
Building	3,364,261	-	(36,811)	3,327,450
Fixed Equipment	61,626	10,499	-	72,125
Major Movable Equipment	1,964,342	145,173	(23,000)	2,086,515
Construction In Progress	2,829	-	(2,829)	-
Totals	<u>\$ 5,442,505</u>	<u>\$167,073</u>	<u>\$ (62,640)</u>	<u>\$ 5,546,938</u>
Accumulated Depreciation				
Land Improvements	\$ 9,603	\$ 777	\$ -	\$ 10,380
Building	1,195,545	178,774	(3,805)	1,370,514
Fixed Equipment	12,020	5,115	-	17,135
Major Movable Equipment	1,534,293	113,908	(21,659)	1,626,542
Totals	<u>\$ 2,751,461</u>	<u>\$298,574</u>	<u>\$ (25,464)</u>	<u>\$ 3,024,571</u>
	<u>\$ 2,691,044</u>			<u>\$ 2,522,367</u>

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Notes Payable	\$ 369,790	\$ -	\$ (31,299)	\$ 338,491	\$ 18,928
Obligations Under Capital Lease	31,344	-	(8,088)	23,256	8,700
Total Long-Term Debt	<u>\$ 401,134</u>	<u>\$ -</u>	<u>\$ (39,387)</u>	<u>\$ 361,747</u>	<u>\$ 27,628</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Notes Payable	\$ 577,301	\$ -	\$ (207,511)	\$ 369,790	\$ 18,651
Obligations Under Capital Lease	38,499	-	(7,155)	31,344	8,086
Total Long-Term Debt	<u>\$ 615,800</u>	<u>\$ -</u>	<u>\$ (214,666)</u>	<u>\$ 401,134</u>	<u>\$ 26,737</u>

The notes bear payable interest of 5.0% and mature through May 2020. Leases require monthly payments of principal and interest at 6.25% - 8.86% and mature through February 2007.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2005	\$ 18,928	\$ 16,816	\$ 8,700	\$ 1,438
2006	16,022	15,978	9,360	777
2007	16,825	15,177	5,196	132
2008	17,664	14,336	-	-
2009	18,547	13,453	-	-
2010-2014	107,610	52,390	-	-
2015-2019	137,341	22,659	-	-
2020-2024	5,554	278	-	-
	<u>\$ 338,491</u>	<u>\$ 151,087</u>	<u>\$ 23,256</u>	<u>\$ 2,347</u>

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The following is the leased equipment by major class at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Major Movable Equipment	\$ 22,109	\$ 22,109
Fixed Equipment	<u>23,633</u>	<u>23,633</u>
Total	45,742	45,742
Accumulated Depreciation	<u>(14,008)</u>	<u>(8,274)</u>
	<u>\$ 31,734</u>	<u>\$ 37,468</u>

NOTE 7 PENSION AND RETIREMENT BENEFITS

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Medical Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$95,500, \$90,500, and \$78,000, respectively, equal to the required contributions for each year.

NOTE 8 RELATED ORGANIZATIONS

Master Affiliation Agreement

The Medical Center has a Master Affiliation Agreement with Mercy Medical Center- North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Wright and surrounding counties in central Iowa. As a part of this Master Affiliation Agreement, the Medical Center entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Medical Center. Amounts paid to MMC-NI for the provision of these services amounted to \$538,392 and \$528,236 for the years ended June 30, 2004 and 2003, respectively.

Operating gains and losses from the consolidated operation of Medical Center and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. No net operating losses were allocated between MMC-NI and the Medical Center for the years ended June 30, 2004 and 2003.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 RELATED ORGANIZATIONS (CONTINUED)

Management Services

The Medical Center has a contractual arrangement with MMC-NI, under which MMC-NI provides an administrator, management consultation, and other services to Belmond Medical Center.

The arrangement does not alter the authority or responsibility of the Board of Trustees of Belmond Medical Center. Expenses for the administrative and management services received were \$261,982 and \$210,933 for the years ended June 30, 2004 and 2003, respectively.

Due to and from Affiliated Organization

As of June 30, 2004 and 2003, the Medical Center's records reflect a due to MMC-NI of \$123,879 and \$154,381, respectively for the various services related to these agreements.

Belmond Community Hospital Foundation

The Foundation is organized under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A Code of Iowa, as amended, and is organized to solicit funds and make contributions to Belmond Medical Center and other charitable 501(c)3 organizations.

The Foundation made contributions to the Medical Center of \$86,409 and \$115,006 for fiscal years ended June 30, 2004 and 2003, respectively.

Belmond Community Hospital Auxiliary

The Belmond Community Hospital Auxiliary was established to advance and promote the welfare of Belmond Medical Center. The Auxiliary's unrestricted resources are distributed to the Medical Center in amounts approved by the Auxiliary's Board of Directors. During the years ended June 30, 2004 and 2003, the Auxiliary made contributions to the Medical Center of \$7,928 and \$4,223, respectively.

NOTE 9 BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The reported expenses for the year ended June 30, 2004 were \$5,206,659 as compared to the budgeted amount of \$5,337,332.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 10 COMMITMENTS AND CONTINGENCIES

Medical Center Risk Management

The Medical Center 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. There has been no significant reduction in insurance coverage from the previous year in any of the Medical Center's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Medical Center has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

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SUPPLEMENTARY INFORMATION

**BELMOND MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

HOSPITAL	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 196,076	\$ 158,550
Swing Bed	106,511	173,963
Total	302,587	332,513
OTHER PROFESSIONAL SERVICES		
Operating Room	395,164	441,685
Anesthesiology	201,102	178,294
Radiology	919,579	819,700
Laboratory	1,540,292	1,415,148
Respiratory Therapy	304,884	212,723
Occupational Therapy	69,838	68,749
Physical Therapy	329,422	357,928
Speech Therapy	10,630	15,269
Medical and Surgical Supplies	181,942	160,341
Pharmacy	454,710	396,797
Clinic	1,156,464	1,099,494
Emergency Room	308,259	245,144
Ambulance	261,965	230,136
Fitness Center	25,664	24,851
Total	6,159,915	5,666,259
Charity Care	(7,291)	(510)
Total Patient Service Revenues	6,455,211	5,998,262
Adjustments to Patient Services Revenues	(1,634,545)	(1,278,496)
Net Patient Service Revenues	\$ 4,820,666	\$ 4,719,766

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 195,588	\$ 158,550	\$ 488	\$ -
106,511	173,963	-	-
<u>302,099</u>	<u>332,513</u>	<u>488</u>	<u>-</u>
11,588	14,399	383,576	427,286
8,316	8,290	192,786	170,004
69,005	36,391	850,574	783,309
173,319	170,005	1,366,973	1,245,143
207,850	114,389	97,034	98,334
16,359	25,602	53,479	43,147
26,002	43,534	303,420	314,394
681	2,698	9,949	12,571
77,047	64,449	104,895	95,892
186,389	182,237	268,321	214,560
8,972	7,547	1,147,492	1,091,947
9,456	13,464	298,803	231,680
-	2,107	261,965	228,029
-	-	25,664	24,851
<u>794,984</u>	<u>685,112</u>	<u>5,364,931</u>	<u>4,981,147</u>
-	-	-	-
<u>\$ 1,097,083</u>	<u>\$ 1,017,625</u>	<u>\$ 5,365,419</u>	<u>\$ 4,981,147</u>

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**BELMOND MEDICAL CENTER
SCHEDULES OF ADJUSTMENTS TO NET PATIENT
SERVICE REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual Adjustments - Medicare	\$ 903,757	\$ 594,855
Contractual Adjustments - Medicaid	99,815	95,987
Provision for Bad Debt	133,750	165,174
Other Allowances and Adjustments	497,223	422,480
 Total Adjustments	 \$ 1,634,545	 \$ 1,278,496
 OTHER REVENUES		
Cafeteria Sales	\$ 40,265	\$ 24,327
Medical Records Transcripts	837	1,079
County Reimbursement for Ambulance Operation	18,962	2,028
Other	25,785	29,759
 Total Other Revenues	 \$ 85,849	 \$ 57,193

**BELMOND MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Capital Related Costs - Clinic Building	-	-
Employee Benefits	-	-
Administrative and General	76,255	51,092
Business Office	96,213	100,701
Operation of Plant	36,829	36,916
Laundry and Linen	-	-
Housekeeping	34,587	31,927
Dietary	76,459	68,688
Nursing Administration	36,717	70,442
Central Services and Supply	26,183	24,236
Medical Records	120,456	115,461
Diabetic	4,539	1,534
Adults and Pediatrics	485,055	470,367
Operating Room	43,954	49,944
Anesthesiology	-	-
Radiology	124,942	107,899
Laboratory	142,848	138,671
Respiratory Therapy	-	-
Physical Therapy	37,389	35,342
Occupational Therapy	-	-
Speech Pathology	-	-
Drugs Charged To Patients	6,185	4,056
Clinic	256,592	254,912
Emergency	59,868	46,397
Ambulance	19,503	5,331
Interest Expense	-	-
Fitness Center	-	-
TOTAL	\$ 1,684,574	\$ 1,613,916

OTHER		TOTAL	
2004	2003	2004	2003
\$ 79,702	\$ 79,919	\$ 79,702	\$ 79,919
121,247	113,908	121,247	113,908
104,288	104,747	104,288	104,747
427,559	402,257	427,559	402,257
470,337	359,697	546,592	410,789
48,996	51,459	145,209	152,160
66,349	80,936	103,178	117,852
14,699	15,159	14,699	15,159
5,704	6,835	40,291	38,762
43,732	30,069	120,191	98,757
19,415	5,743	56,132	76,185
50,832	9,344	77,015	33,580
68,285	69,373	188,741	184,834
327	58	4,866	1,592
14,581	36,084	499,636	506,451
51,681	74,059	95,635	124,003
78,373	75,520	78,373	75,520
244,426	235,428	369,368	343,327
222,421	209,590	365,269	348,261
141,734	123,434	141,734	123,434
135,707	121,555	173,096	156,897
42,161	44,845	42,161	44,845
10,451	10,013	10,451	10,013
146,237	111,189	152,422	115,245
696,169	662,536	952,761	917,448
103,931	92,035	163,799	138,432
29,948	44,019	49,451	49,350
20,134	24,296	20,134	24,296
62,659	69,753	62,659	69,753
<u>\$ 3,522,085</u>	<u>\$ 3,263,860</u>	<u>\$ 5,206,659</u>	<u>\$ 4,877,776</u>

BELMOND MEDICAL CENTER
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 625,580	58.41 %	\$ 514,047	52.23 %
31-60 Days	171,184	15.98	145,246	14.76
61-90 Days	89,975	8.40	70,025	7.12
91 Days and Over	184,312	17.21	254,510	25.89
Total Accounts Receivable	<u>\$ 1,071,051</u>	<u>100.00 %</u>	<u>\$ 983,828</u>	<u>100.00 %</u>
ALLOWANCES				
Contractual -				
Medicare	\$ 132,789		\$ 85,867	
Medicaid & Other Insurance	71,993		81,937	
Doubtful Accounts	84,512		83,581	
Net Accounts Receivable	<u>\$ 781,757</u>		<u>\$ 732,443</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 13,574</u>		<u>\$ 13,383</u>	
Days of Net Revenue in net Accounts Receivable at Year End	<u>58</u>		<u>55</u>	

Analysis of Allowance for Doubtful Accounts

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 83,581		\$ 45,322	
Add:				
Provision for Doubtful Accounts	133,750	2.70 %	165,174	3.38 %
Recoveries Previously Written Off	12,302	0.25 %	4,558	0.09 %
	<u>146,052</u>		<u>169,732</u>	
Deduct:				
Accounts Written Off	(145,121)	(2.93)%	(131,473)	(2.69)%
Ending Balance	<u>\$ 84,512</u>		<u>\$ 83,581</u>	

**BELMOND MEDICAL CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

INVENTORIES	<u>2004</u>	<u>2003</u>
General	\$ 29,926	\$ 32,556
Pharmacy	44,369	43,832
Dietary	4,743	4,632
Other	<u>17,161</u>	<u>18,688</u>
Total Inventories	<u>\$ 96,199</u>	<u>\$ 99,708</u>
 PREPAID EXPENSES		
Insurance	\$ 3,606	\$ 5,058
Other	<u>27,763</u>	<u>25,073</u>
Total Prepaid Expenses	<u>\$ 31,369</u>	<u>\$ 30,131</u>

**BELMOND MEDICAL CENTER
SCHEDULES OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
PATIENT DAYS		
Acute	401	350
Swing Bed and Intermediate	478	956
Totals	<u>879</u>	<u>1,306</u>
ADMISSIONS	<u>222</u>	<u>222</u>
DISCHARGES	<u>222</u>	<u>224</u>
AVERAGE LENGTH OF STAY (IN DAYS)	3.96	5.83
BEDS	22	22
OCCUPANCY PERCENTAGE		
Acute, Based on 22 Beds	4.99%	4.36%
Swing Bed, Based on 22 Beds	5.95%	11.91%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Belmond Medical Center
Belmond, Iowa

We have audited the financial statements of Belmond Medical Center as of and for the years ended June 30, 2004, which collectively comprise the Medical Center's basic financial statements and have issued our report thereon dated September 23, 2004. We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

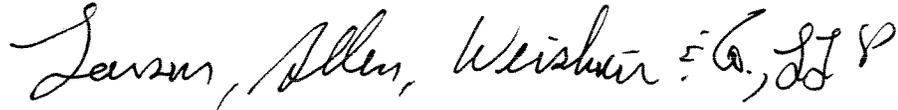
In planning and performing our audits, we considered Belmond Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belmond Medical Center's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Belmond Medical Center in a separate letter dated September 23, 2004.

This report is intended solely for the information and use of the officials, employees, and constituents of Belmond Medical Center and other parties to whom Belmond Medical Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specific parties.

A handwritten signature in black ink that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in a cursive, flowing style.

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 23, 2004

**BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

04-1 Official Depositories

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Medical Center disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.

04-3 Entertainment Expense

We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

04-4 Travel Expense

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

04-5 Business Transactions

We noted no material business transactions between the Medical Center and Medical Center officials and/or employees.

04-6 Board Minutes

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

04-7 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy were noted.

04-8 Chapter 28E Organization

The Medical Center has entered into a joint venture agreement under the provision of Chapter 28E of the Code of Iowa. This joint venture has contracted for an audit as required under the provisions of Chapter 28E.