

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2005 AND 2004

**BELMOND MEDICAL CENTER
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**BELMOND MEDICAL CENTER
BOARD OF TRUSTEES
YEARS ENDED JUNE 30, 2005 AND 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Beminio	Chairperson	2006
Tom Christianson	Vice-Chairperson	2008
Steve Been	Secretary	2008
Terri Havens	Member	2006
Brad Robson	Member	2008

Suzan Brunet	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, 2005 and 2004, 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 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.

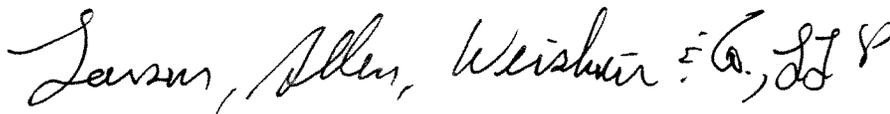
The financial statements referred to above include only the primary government of Belmond Medical Center. The financial statements do not include the financial data for Belmond Medical Center's legally separate component unit, which U.S. generally accepted accounting principles require to be reported 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, 2005 and 2004, 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, 2005 and 2004, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2005 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 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 21, 2005

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005 AND 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, 2005. 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, 2005 and 2004 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 increased \$658,439 or 17.8% in 2005 and decreased \$57,215 or 1.5% in 2004.
- The Hospital's net assets increased \$183,423 or 6.6%, in 2005 and decreased \$68,046 or 2.4% in 2004.
- The Hospital reported positive operating income of \$34,227 in 2005 and negative operating income of \$247,443 in 2004. This represents an increase in 2005 of \$281,670 and a decrease in 2004 of \$157,395.

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, 2005 AND 2004**

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

There were no significant changes in the Hospital's accounting policies for the year ended June 30, 2004.

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>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 2,084,957	\$ 1,291,573	\$ 1,185,361
Noncurrent Cash and Investments	70,060	67,091	36,551
Capital Assets, Net	2,179,671	2,318,974	2,522,367
Other Assets	20,589	19,200	9,774
Total Assets	<u><u>\$ 4,355,277</u></u>	<u><u>\$ 3,696,838</u></u>	<u><u>\$ 3,754,053</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,175,084	\$ 564,843	\$ 513,734
Long-Term Debt (Less Current Maturities)	198,894	334,119	374,397
Total Liabilities	<u>1,373,978</u>	<u>898,962</u>	<u>888,131</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	1,950,276	1,957,227	2,121,233
Unrestricted	1,031,023	840,649	744,689
Total Net Assets	<u>2,981,299</u>	<u>2,797,876</u>	<u>2,865,922</u>
Total Liabilities and Net Assets	<u><u>\$ 4,355,277</u></u>	<u><u>\$ 3,696,838</u></u>	<u><u>\$ 3,754,053</u></u>

Asset categories changing significantly during 2005 and 2004 included Current Assets, Noncurrent Cash and Investments & Net Capital Assets. Current Assets increased \$793,384 or 61.4% in 2005. This included an increase in Cash & Cash Equivalents due to higher patient volumes and Medicare reimbursement rates. It also included an increase in Patient Receivables related to the higher patient volumes and change in clinic billing computer system. Current Assets increased \$106,212 or 8.9% in 2004. This was largely due to an increase in receivables for patient accounts and grant funds. Noncurrent Cash and Investments increased only 4.4% in 2005 but by 83.6% in 2004 due to a contribution to the Ambulance Department. Net Capital Assets decreased \$139,303 in 2005 and \$203,393 in 2004.

The current ratio (current assets divided by current liabilities) was 1.8 for 2005 and 2.3 for 2004. 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, 2005 AND 2004**

Financial Analysis of the Hospital (Continued)

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>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:			
Net Patient Service Revenue	\$ 5,450,258	\$ 4,820,666	\$ 4,719,766
Other Revenue	109,065	138,550	67,962
Total Operating Revenue	<u>5,559,323</u>	<u>4,959,216</u>	<u>4,787,728</u>
Operating Expenses:			
Salaries and Wages	1,743,396	1,684,574	1,613,916
Employee Benefits	454,531	427,559	402,257
Professional Fees	1,610,609	1,468,984	1,414,277
Utilities	89,490	72,765	65,862
Management, Legal, and Accounting Fees	279,129	230,783	176,496
Insurance	56,543	76,995	72,117
Supplies and Miscellaneous	970,925	919,628	809,981
Depreciation and Amortization	303,308	305,237	298,574
Interest	17,165	20,134	24,296
Total Operating Expenses	<u>5,525,096</u>	<u>5,206,659</u>	<u>4,877,776</u>
Operating Income (Loss)	34,227	(247,443)	(90,048)
Non-Operating Revenues (Expenses)	<u>63,201</u>	<u>132,988</u>	<u>24,015</u>
Excess (Deficit) of Revenues over Expenses Before Capital Grants and Contributions	97,428	(114,455)	(66,033)
Capital Grants and Contributions	85,995	46,409	119,330
Increase (Decrease) in Net Assets	183,423	(68,046)	53,297
Net Assets, Beginning of Year	<u>2,797,876</u>	<u>2,865,922</u>	<u>2,812,625</u>
Net Assets, End of Year	<u>\$ 2,981,299</u>	<u>\$ 2,797,876</u>	<u>\$ 2,865,922</u>

Net patient service revenue made up 98.0% in 2005 and 97.2% in 2004 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>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 7,762,725	\$ 6,455,211	\$ 5,998,262
Contractual Adjustments and Provisions for Bad Debt	2,312,467	1,634,545	1,278,496
Net Patient Service Revenue	<u>\$ 5,450,258</u>	<u>\$ 4,820,666</u>	<u>\$ 4,719,766</u>
Contractual Adjustments as a Percent of Revenues	<u>29.79%</u>	<u>25.32%</u>	<u>21.31%</u>

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005 AND 2004**

Financial Analysis of the Hospital (Continued)

Total operating expenses increased \$318,437 or 6.1% in 2005 and increased \$328,883 or 6.7% in 2004. 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 7.2% in 2005 and 15.4% in 2004. Continued growth in outpatient ancillary services for 2005 and 2004 resulted in higher supply and purchased service expenses for the hospital. In 2005 the Hospital saw a 23% increase in management, legal & accounting fees largely related to resolving issues on outstanding Medicare Cost Reports. In 2005, while the Hospital as a whole experienced a 9.6% increase in professional fees, the Clinic experienced a reduction in professional fees related to a physician departure in February. In both 2005 and 2004, the hospital was able to participate in several grant opportunities and purchased minor equipment for a variety of departments. General insurance expense decreased 33% in 2005 due to a change in carrier. In 2004 we experienced a 17.3% increase in this expense. The hospital experienced an 11.2% increase in Bad Debt Expense in 2005 following a reduction of 19% in 2004.

Other Operating Revenue decreased \$29,485 or 21.2% in 2005 and increased \$70,588 or 104% in 2004. Table 4 shows the detail for this line item. The decline in 2005 is due to fewer cafeteria sales and less grant revenue. The increase in 2004 is attributable to the Meals on Wheels program and receiving two years of county reimbursement for ambulance operations.

Table 4: Other Operating Revenue

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cafeteria Sales	\$ 32,367	\$ 40,265	\$ 24,327
Medical Records Transcripts	608	837	1,079
County Reimbursement for Ambulance Operation	7,803	18,962	2,028
Grant Revenue	39,699	52,701	10,769
Other	<u>28,588</u>	<u>25,785</u>	<u>29,759</u>
Total Other Operating Revenues	<u>\$ 109,065</u>	<u>\$ 138,550</u>	<u>\$ 67,962</u>

**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005 AND 2004**

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 increased 19% in 2005 after remaining relatively unchanged in 2004. The total patient days increased 58% in 2005 and decreased 32.7% in 2004. While there has been continued growth in the acute area, there has been a significant increase in the swing bed area over the past year. In 2005, the hospital experienced a slight decline in surgery volumes, which was improved over 2004 when surgery volumes declined 16.2% due to the irregularity of the surgeons.

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	457	401	350
Swing Bed	932	478	956
Total	<u>1,389</u>	<u>879</u>	<u>1,306</u>
Admissions			
Acute	160	162	132
Swing Bed	104	60	90
Total	<u>264</u>	<u>222</u>	<u>222</u>
Discharges			
Acute	162	161	133
Swing Bed	103	61	91
Total	<u>265</u>	<u>222</u>	<u>224</u>
Average Length of Stay, Acute	<u>5.24</u>	<u>3.96</u>	<u>5.83</u>
Beds			
Acute and Swing	22	22	22
Occupancy Percentage			
Acute, Based on 22 Beds	5.69%	4.99%	4.36%
Swingbed, Based on 22 Beds	11.61%	5.95%	11.91%

The Hospital's Cash Flows

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

Capital Assets

At June 30, 2005 the Hospital had \$2,179,671 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$165,389 to purchase new equipment. In 2004 the Hospital purchased new equipment costing \$101,844.

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**BELMOND MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005 AND 2004**

Long Term Debt

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

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Notes Payable	\$ 214,838	\$ 338,490	\$ 369,790
Leases Payable	14,557	23,257	31,344
Less Current Maturities	<u>(30,501)</u>	<u>(27,628)</u>	<u>(26,737)</u>
 Total Long Term Debt	 <u>\$ 198,894</u>	 <u>\$ 334,119</u>	 <u>\$ 374,397</u>

Belmond Medical Center had Notes Payable outstanding at June 30, 2005 totaling \$214,838. They bear interest of 5% and mature through May 2014. The obligations under capital lease at June 30, 2005 outstanding are \$14,557. 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 strengthened during the current year. Net Operating Revenues increased 12.1%. Contracts with Third Party Payors have resulted in lower reimbursement but operating expenses were well-controlled and increased at a slower rate, 6.1%, than revenues. However, 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 next 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, 2005 AND 2004**

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,000,408	\$ 337,836
Patient Receivables, Less Allowance for Uncollectible Accounts (2005, \$148,000; 2004, \$85,000)	880,392	781,757
Other Receivables	54,570	44,412
Inventories	96,533	96,199
Prepaid Expenses	53,054	31,369
Total Current Assets	<u>2,084,957</u>	<u>1,291,573</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Ambulance	70,060	67,091
Total NonCurrent Cash and Investments	<u>70,060</u>	<u>67,091</u>
CAPITAL ASSETS, NET	2,179,671	2,318,974
OTHER ASSETS		
Notes Receivable	8,828	8,937
Investment in Mobile Radiology, LLC	11,761	10,263
Total Other Assets	<u>20,589</u>	<u>19,200</u>
Total Assets	<u><u>\$ 4,355,277</u></u>	<u><u>\$ 3,696,838</u></u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 30,501	\$ 27,628
Accounts Payable	341,002	363,903
Accrued Expenses	166,202	165,687
Third-Party Payor Settlement Payable	637,379	7,625
Total Current Liabilities	<u>1,175,084</u>	<u>564,843</u>
LONG-TERM DEBT, Less Current Maturities	<u>198,894</u>	<u>334,119</u>
Total Liabilities	1,373,978	898,962
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	1,950,276	1,957,227
Unrestricted	1,031,023	840,649
Total Net Assets	<u>2,981,299</u>	<u>2,797,876</u>
Total Liabilities and Net Assets	<u>\$ 4,355,277</u>	<u>\$ 3,696,838</u>

BELMOND MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provisions for Bad Debts of \$148,735 in 2005 and \$133,750 in 2004)	\$ 5,450,258	\$ 4,820,666
Other Revenue	109,065	138,550
Total Revenues	5,559,323	4,959,216
EXPENSES		
Salaries and Wages	1,743,396	1,684,574
Employee Benefits	454,531	427,559
Professional Fees	1,610,609	1,468,984
Utilities	89,490	72,765
Management, Legal, and Accounting Fees	279,129	230,783
Insurance	56,543	76,995
Supplies and Miscellaneous	970,925	919,628
Depreciation and Amortization	303,308	305,237
Interest	17,165	20,134
Total Expenses	5,525,096	5,206,659
OPERATING INCOME (LOSS)	34,227	(247,443)
NON-OPERATING GAINS (LOSSES)		
Interest Income	12,971	3,210
Contributions	48,587	125,946
Other	1,643	3,832
Net Nonoperating Gains	63,201	132,988
EXCESS (DEFECIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	97,428	(114,455)
Capital Contributions and Grants	85,995	46,409
Increase (Decrease) in Net Assets	183,423	(68,046)
Net Assets Beginning of Year	2,797,876	2,865,922
Net Assets End of Year	\$ 2,981,299	\$ 2,797,876

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 5,981,377	\$ 4,778,977
Cash Paid to Employees	(2,197,412)	(2,091,272)
Cash Paid to Suppliers	(3,061,774)	(2,770,876)
Cash Paid for Interest	(15,822)	(20,732)
Other Receipts and Payments, Net	109,174	135,613
Net Cash Provided by Operating Activities	815,543	31,710
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions and Grants	136,225	176,187
Net Cash Provided by Non-Capital Financing Activities	136,225	176,187
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(165,389)	(101,844)
Proceeds from Sale of Capital Assets	70	-
Payments on Long-Term Debt	(132,352)	(39,387)
Net Cash Used by Capital and Related Financing Activities	(297,671)	(141,231)
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(2,969)	(30,540)
Investment in Mobile Radiology, LLC	(1,527)	(6,489)
Interest Earned on Investments	12,971	3,210
Net Cash Provided (Used) by Financing Activities	8,475	(33,819)
 INCREASE IN CASH AND CASH EQUIVALENTS	662,572	32,847
Cash and Cash Equivalents - Beginning	337,836	304,989
 CASH AND CASH EQUIVALENTS - ENDING	\$ 1,000,408	\$ 337,836

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Loss from Operations	\$ 34,227	\$ (247,443)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	303,308	305,237
Decrease (Increase) in -		
Patient Receivables	(98,635)	(49,314)
Accounts Receivable - Other	(10,158)	(26,322)
Note Receivable	109	(2,937)
Inventories	(334)	3,509
Prepaid Expenses	(21,685)	(1,238)
Increase (Decrease) in -		
Accounts Payable	(22,901)	22,330
Accrued Salaries, Wages, Benefits and Other	1,858	20,263
Third Party Payor Settlements Payable	629,754	7,625
Net Cash Used by Operating Activities	\$ 815,543	\$ 31,710

See accompanying Notes to Financial Statements.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 as 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 U.S. 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.

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.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2005 and 2004, the allowance for uncollectible accounts was \$148,000 and \$85,000, 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 provision for depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. During fiscal year June 30, 2005 the capitalization policy of the Medical Center was increased from \$2,000 to \$5,000. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenses of \$5,000 or greater are capitalized and amortized over the useful life of the asset.

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. Contributions are reported in non-operating income. Grants restricted for specific operating purposes are reported as other operating income. The Medical Center does not have any restricted noncurrent cash and investments at June 30, 2005 and 2004, respectively.

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. There were no restricted net assets as of June 30, 2005 and 2004.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating 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, and contributions received for purposes other than capital asset acquisition, are reported as non-operating gains. Operating expenses are all expenses incurred to provide health care services, including interest expense.

F. 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.

G. 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.

H. 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.

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, 2005 and 2004 was \$13,945 and \$7,291, respectively.

J. Reclassification of 2004 Data

Data in 2004 financial statements have been reclassified to conform with the 2005 basis of presentation. The reclassifications have no effect on the previously reported net income or equity.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 is certified 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 is certified 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 2002 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 54% and 7%, respectively, of the Medical Center's net patient revenue for the year ended 2005, and 53% percent and 8% percent, respectively, of the Medical Center's net patient revenue, for the year ended 2004. 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.

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

	2005	2004
Total Patient Service Revenue	\$ 7,762,725	\$ 6,455,211
Contractual Adjustments:		
Medicare	1,397,032	903,757
Medicaid	126,233	99,815
Provision for Bad Debt	148,735	133,750
Other	640,467	497,223
Total Contractual Adjustments	2,312,467	1,634,545
Net Patient Service Revenues	\$ 5,450,258	\$ 4,820,666

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Medical Center at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Receivable from Patients and Their Insurance Carriers	\$ 549,704	\$ 499,593
Receivable from Medicare	451,256	355,544
Receivable from Medicaid	27,741	11,132
Total Patient Receivables	1,028,701	866,269
Less Allowance for Doubtful Accounts	(148,309)	(84,512)
Patient Receivables, Net	\$ 880,392	\$ 781,757

NOTE 4 DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2005 and 2004 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.

Deposits are included in the following balance sheet captions:

	2005	2004
Cash and Cash Equivalents	\$ 1,000,408	\$ 337,836
Noncurrent Cash and Investments		
Internally Designated for Ambulance	70,060	67,091
Total Deposits	\$ 1,070,468	\$ 404,927

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years June 30, 2005 and 2004 are as follows:

	June 30, 2004	Additions	(Retirements)	June 30, 2005
Capital Assets				
Land and Land Improvements	\$ 82,689	\$ 7,774	\$ -	\$ 90,463
Building	3,330,199	42,140	-	3,372,339
Fixed Equipment	79,325	-	-	79,325
Major Movable Equipment	2,156,568	115,475	(5,558)	2,266,485
Totals	\$ 5,648,781	\$ 165,389	\$ (5,558)	\$ 5,808,612
Accumulated Depreciation				
Land Improvements	\$ 12,243	\$ 2,507	\$ -	\$ 14,750
Building	1,546,733	174,633	-	1,721,366
Fixed Equipment	23,042	5,967	-	29,009
Major Movable Equipment	1,747,789	120,201	(4,174)	1,863,816
Totals	3,329,807	\$ 303,308	\$ (4,174)	3,628,941
	\$ 2,318,974			\$ 2,179,671
Capital Assets				
	June 30, 2003	Additions	(Retirements)	June 30, 2004
Land and Land Improvements	\$ 60,848	\$ 21,841	\$ -	\$ 82,689
Building	3,327,449	2,750	-	3,330,199
Fixed Equipment	72,125	7,200	-	79,325
Major Movable Equipment	2,086,515	70,053	-	2,156,568
Totals	\$ 5,546,937	\$ 101,844	\$ -	\$ 5,648,781
Accumulated Depreciation				
Land Improvements	\$ 10,380	\$ 1,863	\$ -	\$ 12,243
Building	1,370,513	176,220	-	1,546,733
Fixed Equipment	17,135	5,907	-	23,042
Major Movable Equipment	1,626,542	121,247	-	1,747,789
Totals	3,024,570	\$ 305,237	\$ -	3,329,807
	\$ 2,522,367			\$ 2,318,974

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Notes Payable	\$ 338,490	\$ -	\$ (123,652)	\$ 214,838	\$ 21,140
Obligations Under Capital Lease	23,257	-	(8,700)	14,557	9,361
Total Long-Term Debt	<u>\$ 361,747</u>	<u>\$ -</u>	<u>\$ (132,352)</u>	<u>\$ 229,395</u>	<u>\$ 30,501</u>

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Notes Payable	\$ 369,790	\$ -	\$ (31,300)	\$ 338,490	\$ 18,928
Obligations Under Capital Lease	31,344	-	(8,087)	23,257	8,700
Total Long-Term Debt	<u>\$ 401,134</u>	<u>\$ -</u>	<u>\$ (39,387)</u>	<u>\$ 361,747</u>	<u>\$ 27,628</u>

The notes bear interest of 5.0% and mature through May 2014. 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
2006	\$ 21,140	\$ 10,860	\$ 9,360	\$ 777
2007	22,315	9,685	5,197	132
2008	23,431	8,569	-	-
2009	24,602	7,398	-	-
2010	25,833	6,167	-	-
2011-2015	97,517	11,091	-	-
	<u>\$ 214,838</u>	<u>\$ 53,770</u>	<u>\$ 14,557</u>	<u>\$ 909</u>

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The following is the leased equipment by major class at June 30, 2005 and 2004:

	2005	2004
Major Movable Equipment	\$ 22,109	\$ 22,109
Fixed Equipment	23,633	23,633
Total	45,742	45,742
Accumulated Depreciation	(19,743)	(14,008)
	\$ 25,999	\$ 31,734

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, 2005, 2004, and 2003 were approximately \$99,700, \$95,600, and \$90,500, 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 \$926,403 and \$895,957 for the years ended June 30, 2005 and 2004, 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 gains (losses) were allocated between MMC-NI and the Medical Center for the years ended June 30, 2005 and 2004.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 \$230,921 and \$218,545 for the years ended June 30, 2005 and 2004, respectively.

Due to and from Affiliated Organization

As of June 30, 2005 and 2004, the Medical Center's records reflect a due to MMC-NI of \$167,449 and \$123,879, 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 \$86,000 and \$86,409 for fiscal years ended June 30, 2005 and 2004, 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, 2005 and 2004, the Auxiliary made contributions to the Medical Center of \$5,230 and \$7,928, 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, 2005 were \$5,525,096 as compared to the budgeted amount of \$5,744,661.

**BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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.

Purchase Commitments

The Medical Center entered into agreements after June 30, 2005 to purchase real estate, computer equipment and a sprinkler system. The cost of the real estate is \$40,000, computer equipment \$37,615 and sprinkler system \$57,836 all purchases will be financed with cash reserves.

SUPPLEMENTARY INFORMATION

**BELMOND MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 241,809	\$ 196,076
Swing Bed	220,130	106,511
Total	461,939	302,587
OTHER PROFESSIONAL SERVICES		
Operating Room	368,216	395,164
Anesthesiology	224,735	201,102
Radiology	1,208,132	919,579
Laboratory	1,780,184	1,540,292
Respiratory Therapy	237,271	304,884
Occupational Therapy	101,873	69,838
Physical Therapy	394,592	329,422
Speech Therapy	4,307	10,630
Medical and Surgical Supplies	368,258	181,942
Pharmacy	657,165	454,710
Clinic	1,355,877	1,156,464
Emergency Room	340,933	308,259
Ambulance	245,549	261,965
Fitness Center	27,639	25,664
Total	7,314,731	6,159,915
Charity Care	(13,945)	(7,291)
Total Patient Service Revenues	7,762,725	6,455,211
Adjustments to Patient Services Revenues	(2,312,467)	(1,634,545)
Net Patient Service Revenues	\$ 5,450,258	\$ 4,820,666

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 242,337	\$ 195,588	\$ (528)	\$ 488
220,130	106,511	-	-
<u>462,467</u>	<u>302,099</u>	<u>(528)</u>	<u>488</u>
16,915	11,588	351,301	383,576
15,932	8,316	208,803	192,786
81,698	69,005	1,126,434	850,574
211,880	173,319	1,568,304	1,366,973
116,912	207,850	120,359	97,034
40,286	16,359	61,587	53,479
61,063	26,002	333,529	303,420
311	681	3,996	9,949
207,362	77,047	160,896	104,895
222,565	186,389	434,600	268,321
34,435	8,972	1,321,442	1,147,492
3,599	9,456	337,334	298,803
1,743	-	243,806	261,965
-	-	27,639	25,664
<u>1,014,701</u>	<u>794,984</u>	<u>6,300,030</u>	<u>5,364,931</u>
-	-	-	-
<u>\$ 1,477,168</u>	<u>\$ 1,097,083</u>	<u>\$ 6,299,502</u>	<u>\$ 5,365,419</u>

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**BELMOND MEDICAL CENTER
SCHEDULES OF ADJUSTMENTS TO NET PATIENT
SERVICE REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual Adjustments - Medicare	\$ 1,397,032	\$ 903,757
Contractual Adjustments - Medicaid	126,233	99,815
Provision for Bad Debt	148,735	133,750
Other Allowances and Adjustments	<u>640,467</u>	<u>497,223</u>
 Total Adjustments	 <u>\$ 2,312,467</u>	 <u>\$ 1,634,545</u>
	 <u>2005</u>	 <u>2004</u>
OTHER REVENUES		
Cafeteria Sales	\$ 32,367	\$ 40,265
Medical Records Transcripts	608	837
County Reimbursement for Ambulance Operation	7,803	18,962
Grant Revenue	39,699	52,701
Other	<u>28,588</u>	<u>25,785</u>
 Total Other Revenues	 <u>\$ 109,065</u>	 <u>\$ 138,550</u>

**BELMOND MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 79,976	\$ 79,702
Capital Related Costs - Moveable Equipment	120,200	121,247
Capital Related Costs - Clinic Building	103,132	104,288
Employee Benefits	454,531	427,559
Administrative and General	568,816	546,592
Business Office	147,168	145,209
Operation of Plant	130,725	103,178
Laundry and Linen	16,387	14,699
Housekeeping	48,886	40,291
Dietary	125,185	120,191
Nursing Administration	50,820	56,132
Central Services and Supply	103,554	77,015
Medical Records	200,176	188,741
Diabetic	2,738	4,866
Adults and Pediatrics	539,497	499,636
Operating Room	78,923	95,635
Anesthesiology	84,152	78,373
Radiology	446,277	369,368
Laboratory	393,273	365,269
Respiratory Therapy	142,747	141,734
Physical Therapy	177,062	173,096
Occupational Therapy	57,485	42,161
Speech Pathology	2,970	10,451
Drugs Charged To Patients	128,722	152,422
Clinic	990,664	952,761
Emergency	192,229	163,799
Ambulance	53,473	49,451
Interest Expense	17,165	20,134
Fitness Center	68,163	62,659
TOTAL	<u>\$ 5,525,096</u>	<u>\$ 5,206,659</u>

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 79,976	\$ 79,702
-	-	120,200	121,247
-	-	103,132	104,288
-	-	454,531	427,559
80,171	76,255	488,645	470,337
97,718	96,213	49,450	48,996
43,201	36,829	87,524	66,349
-	-	16,387	14,699
41,243	34,587	7,643	5,704
79,483	76,459	45,702	43,732
31,899	36,717	18,921	19,415
32,790	26,183	70,764	50,832
129,157	120,456	71,019	68,285
825	4,539	1,913	327
525,388	485,055	14,109	14,581
43,946	43,954	34,977	51,681
-	-	84,152	78,373
126,121	124,942	320,156	244,426
146,033	142,848	247,240	222,421
-	-	142,747	141,734
36,739	37,389	140,323	135,707
-	-	57,485	42,161
-	-	2,970	10,451
6,862	6,185	121,860	146,237
237,252	256,592	753,412	696,169
54,965	59,868	137,264	103,931
29,603	19,503	23,870	29,948
-	-	17,165	20,134
-	-	68,163	62,659
<u>\$ 1,743,396</u>	<u>\$ 1,684,574</u>	<u>\$ 3,781,700</u>	<u>\$ 3,522,085</u>

BELMOND MEDICAL CENTER
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 557,388	45.76 %	\$ 625,580	58.41 %
31-60 Days	217,754	17.88	171,184	15.98
61-90 Days	154,408	12.68	89,975	8.40
91 Days and Over	288,524	23.68	184,312	17.21
Total Accounts Receivable	<u>1,218,074</u>	<u>100.00 %</u>	<u>1,071,051</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -

Medicare	92,495	132,789
Medicaid & Other Insurance	96,878	71,993
Doubtful Accounts	148,309	84,512
Net Accounts Receivable	<u>\$ 880,392</u>	<u>\$ 781,757</u>

Net Patient Service Revenue
per Calendar Day (Excluding
Provision for Bad Debts)

\$ 15,340	\$ 13,574
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Days of Net Revenue in Net Accounts
Receivable at Year End

57	58
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Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 84,512		\$ 83,581	
Add:				
Provision for Doubtful Accounts	148,735	2.66 %	133,750	2.70 %
Recoveries Previously Written Off	78,955	1.41 %	12,302	0.25 %
	<u>227,690</u>		<u>146,052</u>	
Deduct:				
Accounts Written Off	<u>(163,893)</u>	(2.93)%	<u>(145,121)</u>	(2.93)%
Ending Balance	<u>\$ 148,309</u>		<u>\$ 84,512</u>	

**BELMOND MEDICAL CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

INVENTORIES	<u>2005</u>	<u>2004</u>
General	\$ 31,247	\$ 29,926
Pharmacy	44,982	44,369
Dietary	3,906	4,743
Other	<u>16,398</u>	<u>17,161</u>
Total Inventories	<u>\$ 96,533</u>	<u>\$ 96,199</u>

PREPAID EXPENSES	<u>2005</u>	<u>2004</u>
Insurance	\$ 2,953	\$ 3,606
Other	<u>50,101</u>	<u>27,763</u>
Total Prepaid Expenses	<u>\$ 53,054</u>	<u>\$ 31,369</u>

**BELMOND MEDICAL CENTER
SCHEDULES OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)**

	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute	457	401
Swing Bed and Intermediate	932	478
Totals	<u>1,389</u>	<u>879</u>
ADMISSIONS	<u>264</u>	<u>222</u>
DISCHARGES	<u>265</u>	<u>222</u>
AVERAGE LENGTH OF STAY (IN DAYS)	5.24	3.96
BEDS	22	22
OCCUPANCY PERCENTAGE		
Acute, Based on 22 Beds	5.69%	4.99%
Swing Bed, Based on 22 Beds	11.61%	5.95%

**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, 2005 and 2004, which collectively comprise the Medical Center's basic financial statements and have issued our report thereon dated September 21, 2005. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Belmond Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Belmond Medical Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are included in Part I of the schedule of findings.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

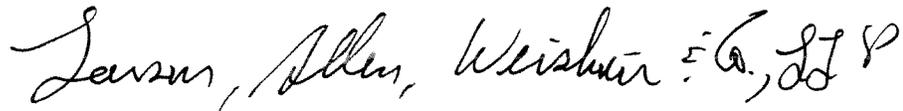
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belmond Medical Center's financial statements are free of material misstatement, 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 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 21, 2005.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. 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.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees, and constituents of Belmond Medical Center and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 21, 2005

**BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to Financial Statements:

Reportable Conditions

05-I-1 Segregation of Duties

The accountant currently has the ability to create new vendors, enter invoices and print checks.

Recommendation

We recommend the ability to create a new vendor be limited to one individual who does not have access to other areas of the disbursement cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

05-I-2 Segregation of Duties

The individual who prints payroll checks also has the ability to enter new employees in the information system, enter the hours, and change wage rates.

Recommendation

We recommend limiting the ability to create a new employee to an individual who does not have access to other areas of the payroll cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

**BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting:

05-II-1 Official Depositories

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation

The depository resolution should be updated when new depositories are added, maximum deposit limits change or previously approved depositories change their names.

Response

We will update our depository resolution as described above.

Conclusion

Response is accepted.

05-II-2 Certified Budget

Medical Center disbursements during the year ended June 30, 2005 did not exceed amounts budgeted.

05-II-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.

05-II-4 Travel Expense

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

05-II-5 Business Transactions

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

05-II-6 Board Minutes

Chapter 21 of the Code of Iowa requires the Medical Center to maintain a copy of the board minutes indicating time, date, and place of the board meetings and signed by the secretary of the board. The board minutes did not meet the requirements of Chapter 21.

Recommendation

The board minutes should be kept in accordance with Chapter 21 of the Code of Iowa.

Response

We will update our board minutes as described above.

Conclusion

Response is accepted.

05-II-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.

**BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

05-II-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.

05-II-9 Publication Of Sale of Property

We noted that items of property were sold without proper public notice as required under 347.30 of the Code of Iowa.

Recommendation

Items of property should be published in a local newspaper prior to the sale.

Response

We will publish property prior to the sale.

Conclusion

Response is accepted.

05-II-10 Approval of Mileage Rate

The mileage reimbursement rate was changed during fiscal year ended June 30, 2005 without proper approval by the Board of Trustees as required by chapter 70A of the Code of Iowa.

Recommendation

Mileage rate changes should be approved by the Board of Trustees.

Response

Mileage rate changes will be approved by the Board of Trustees.

Conclusion

Response is accepted.

