

**FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**BELMOND COMMUNITY HOSPITAL  
d/b/a BELMOND MEDICAL CENTER**

**BELMOND COMMUNITY HOSPITAL  
d/b/a BELMOND MEDICAL CENTER**

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**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Frank Beminio	Chairperson	2010
Tom Christianson	Vice-Chairperson	2007
Steve Been	Secretary	2006
Terri Havens	Member	2010
Brad Robson	Member	2006
<u>Medical Center Officials</u>		
Suzan Brunos	Administrator/Chief Executive Officer	
Peggy Boehmer	Chief Financial Officer	



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## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Belmond Community Hospital  
d/b/a Belmond Medical Center  
Belmond, Iowa

We have audited the accompanying balance sheet of the primary government of **Belmond Community Hospital, d/b/a Belmond Medical Center**, as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the primary government of **Belmond Community Hospital, d/b/a Belmond Medical Center**, as of and for the year ended June 30, 2005, were audited by other auditors whose report dated September 21, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of **Belmond Community Hospital, d/b/a Belmond Medical Center**. The financial statements do not include the financial data for **Belmond Medical Center's** legally separate component unit (Belmond Community Hospital Foundation), which accounting principles generally accepted in the United States of America require to be reported with the financial data of **Belmond Medical Center**.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the primary government of **Belmond Medical Center** as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because they do not include the financial data of the component unit of **Belmond Medical Center**, do not purport to, and do not, present fairly the financial position of **Belmond Medical Center**, as of June 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Medical Center's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2006, 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 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 measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa  
September 13, 2006

# **Belmond Community Hospital**

## **Management's Discussion and Analysis**

This section of Belmond Community Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2006. We encourage readers to read this analysis in conjunction with the financial statements in this report.

### **Financial Highlights**

- The Hospital's total assets decreased by \$264,628 or 6%. A significant portion of this decrease represents a decline in net patient receivables and in capital equipment and buildings.
- The Hospital's assets exceeded liabilities by \$3,230,263 at June 30, 2006. The long-term debt was paid in full during the year.
- During the year, the Hospital's total operating revenues increased 2.7% to \$5,706,813, while the operating expenses increased 2.1% to \$5,643,860. The Hospital had income from operations of \$62,953, which is 1.1% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$177,681 during the fiscal year. The source of funding for these items was derived from operations and contributions.

### **Overview of the Financial Statements**

The basic financial statements of the Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2006, reports total assets of \$4,090,649, total liabilities of \$860,386 and net assets of \$3,230,263.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$5,706,813 and total operating expenses of \$5,643,860 during fiscal year 2006. The operating income was \$62,953 in 2006, compared to an operating income of \$34,227 in 2005.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

## **Long-term Debt**

At year-end, Belmond Community Hospital had \$4,732 in short-term debt and no long-term debt. The short-term debt represents the current portion of a note payable for a lighting upgrade and lease payments for lab equipment.

## **Factors Bearing on Financial Future**

Belmond Community Hospital's financial position continued to improve. Total Operating Revenues increased 2.7%. Contracts with Third Party Payors decreased slightly; expenses were well controlled and increased at a slower rate, 2.1%, 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 on-going challenge to maintain up-to-date technology at a reasonable cost
- Potential changes in federal and state reimbursement for patient services

Belmond Community 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.

## **Requests for Information**

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Belmond Community Hospital  
Attn: Chief Financial Officer  
403 1<sup>st</sup> St. S.E.  
Belmond, IA 50421

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**BALANCE SHEETS**  
**JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - Note 4	\$ 917,080	\$ 1,000,408
Receivables		
Patient, net of estimated uncollectibles	801,922	880,392
of \$405,176 in 2006 and \$337,682 in 2005		
Other	24,913	54,570
Supplies	98,939	96,533
Prepaid expense	<u>69,265</u>	<u>53,054</u>
Total current assets	<u>1,912,119</u>	<u>2,084,957</u>
<b>ASSETS LIMITED AS TO USE - Note 4</b>		
Internally designated for ambulance	<u>79,052</u>	<u>70,060</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>2,070,135</u>	<u>2,179,671</u>
<b>OTHER ASSETS</b>		
Notes receivable	15,329	8,828
Joint venture - Note 6	<u>14,014</u>	<u>11,761</u>
Total other assets	<u>29,343</u>	<u>20,589</u>
Total assets	<u>\$ 4,090,649</u>	<u>\$ 4,355,277</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 7	\$ 4,732	\$ 30,501
Accounts payable		
Trade	431,353	341,002
Estimated third-party payor settlements	228,555	637,379
Accrued expenses		
Salaries and wages	63,476	52,024
Vacation	101,638	89,498
Payroll taxes and employee benefits	<u>30,632</u>	<u>24,680</u>
 Total current liabilities	 <b>860,386</b>	 1,175,084
 LONG-TERM DEBT, less current maturities - Note 7	 <u>-</u>	 <u>198,894</u>
 Total liabilities	 <u><b>860,386</b></u>	 <u>1,373,978</u>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	2,065,403	1,950,276
Unrestricted	<u>1,164,860</u>	<u>1,031,023</u>
 Total net assets	 <u><b>3,230,263</b></u>	 <u>2,981,299</u>
 Total liabilities and net assets	 <u><b>\$ 4,090,649</b></u>	 <u>\$ 4,355,277</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$168,882 in 2006 and \$148,735 in 2005) - Note 3	\$ 5,609,558	\$ 5,455,140
Other operating revenues	<u>97,255</u>	<u>104,183</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>5,706,813</u></b>	<b><u>5,559,323</u></b>
OPERATING EXPENSES		
Salaries and wages	1,846,479	1,743,396
Employee benefits	503,457	454,531
Supplies and other expenses	2,999,917	3,006,696
Depreciation	285,352	303,308
Interest and amortization	<u>8,655</u>	<u>17,165</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>5,643,860</u></b>	<b><u>5,525,096</u></b>
<b>OPERATING INCOME</b>	<b><u>62,953</u></b>	<b><u>34,227</u></b>
NONOPERATING REVENUES		
Investment income	27,277	12,971
Noncapital grants and contributions	146,447	48,587
Other	<u>7,843</u>	<u>1,643</u>
<b>TOTAL NONOPERATING REVENUES</b>	<b><u>181,567</u></b>	<b><u>63,201</u></b>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	244,520	97,428
Capital contributions and grants	<u>4,444</u>	<u>85,995</u>
<b>INCREASE IN NET ASSETS</b>	<b>248,964</b>	183,423
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>2,981,299</u></b>	<b><u>2,797,876</u></b>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 3,230,263</u></b>	<b><u>\$ 2,981,299</u></b>

See notes to financial statements.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 5,279,204	\$ 5,986,259
Payments of salaries and wages	(1,835,027)	(1,736,319)
Payments of supplies and other expenses	(3,383,891)	(3,522,867)
Other receipts and payments, net	<u>90,754</u>	<u>104,292</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>151,040</u></b>	<b><u>831,365</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<b>146,447</b>	48,587
Other income	<u>7,843</u>	<u>1,643</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>154,290</u></b>	<b><u>50,230</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(177,782)	(165,389)
Proceeds from sale of property and equipment	-	70
Interest payments on long-term debt	(6,689)	(15,822)
Principal payments on long-term debt	(224,663)	(132,352)
Capital grants and contributions	<u>4,444</u>	<u>85,995</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(404,690)</u></b>	<b><u>(227,498)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in assets limited as to use	(8,992)	(2,969)
Increase in investment in joint venture	(2,253)	(1,527)
Investment income	<u>27,277</u>	<u>12,971</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b><u>16,032</u></b>	<b><u>8,475</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(83,328)</b>	662,572
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>1,000,408</u></b>	<b><u>337,836</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 917,080</u></b>	<b><u>\$ 1,000,408</u></b>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 62,953	\$ 34,227
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	285,352	303,308
Interest expense considered capital and related financing activity	8,655	17,165
Provision for bad debts	168,882	148,735
Changes in assets and liabilities		
Patient receivables	(90,412)	(247,370)
Other receivables	29,657	(10,158)
Notes receivable	(6,501)	109
Supplies	(2,406)	(334)
Prepaid expense	(16,211)	(21,685)
Accounts payable	90,351	(22,901)
Accrued expenses	29,544	515
Estimated third-party payor settlements	<u>(408,824)</u>	<u>629,754</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 151,040</u>	 <u>\$ 831,365</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Belmond Medical Center (“the Medical Center”) is a 22-bed municipal hospital of the City of Belmond, organized under Chapter 392 of the 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 10. Services are provided to residents of Wright and surrounding counties in central Iowa. The Medical Center is exempt from income taxes as a political subdivision.

*Reporting Entity*

For financial reporting purposes, the Medical Center has included all funds, organizations, 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. Belmond Hospital Foundation is a component unit of the Medical Center. However, the Medical Center has elected to exclude the Foundation from these financial statements.

*Basis of Presentation*

The balance sheet displays the Medical Center’s assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets as of June 30, 2006 and 2005.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Medical Center’s policy to use restricted resources first.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Measurement Focus and 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 Medical Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Medical Center applies all applicable GASB pronouncements for proprietary funds 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 Procedure.

*Use of Estimates*

The preparation of financial statements in conformity with 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 amounts.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Medical Center considers saving accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, excluding assets limited as to use.

*Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. Accounts past due more than 120 days are turned over to collection agents.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Supplies*

Supplies are valued at cost using the first-in, first-out method.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for the Medical Center's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	5-25 years
Buildings and improvements	5-50 years
Equipment	3-20 years

*Assets Limited as to Use*

Assets limited as to use include assets which have been internally designated by the Medical Center's Board of Trustees. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

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 nonoperating revenue to the extent expended within the period. The Medical Center does not have any restricted funds at June 30, 2006 and 2005, respectively.

*Compensated Absences*

The Medical Center employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

*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 exchange and non-exchange transactions associated with providing health care services –the Medical Center's principal activity. Non-exchange revenues, including interest income, grants, and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Net Patient Service Revenue*

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Medical Center incurred \$15,968 and \$2,399 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

*Charity Care*

To fulfill its mission of community service, 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. Revenue from services to these patients is recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

*Reclassifications*

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

*Other Significant Accounting Policies*

Other significant accounting policies are set forth in the financial statements and the notes thereto.

**NOTE 2 – CHARITY CARE**

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$11,118 and \$13,945, respectively.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE 3 – NET PATIENT SERVICE REVENUE**

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 licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare fiscal intermediary. The Medical Center’s Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2004. 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.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Center’s Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

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

Laws and regulations governing the Medicare, Medicaid, and other 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 net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 7,909,825</u>	<u>\$ 7,765,322</u>
Contractual adjustments:		
Medicare	(1,441,518)	(1,394,747)
Medicaid	(162,715)	(126,233)
Blue Cross	(343,359)	(528,338)
Other	<u>(183,793)</u>	<u>(112,129)</u>
Total contractual adjustments	<u>(2,131,385)</u>	<u>(2,161,447)</u>
Net patient service revenue	5,778,440	5,603,875
Provision for bad debts	<u>(168,882)</u>	<u>(148,735)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 5,609,558</u>	<u>\$ 5,455,140</u>

(continued on next page)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 4 – CASH AND DEPOSITS**

The Medical Center’s deposits in banks at June 30, 2006 and 2005, 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; 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.

At June 30, 2006 and 2005, the Medical Center’s carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Checking and savings accounts	\$ 135,271	\$ 105,273
Repurchase agreement	829,881	935,443
Certificates of deposit	<u>30,980</u>	<u>29,752</u>
 Total deposits	 <u>\$ 996,132</u>	 <u>\$ 1,070,468</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 917,080	\$ 1,000,408
Assets limited as to use	<u>79,052</u>	<u>70,060</u>
 Total deposits	 <u>\$ 996,132</u>	 <u>\$ 1,070,468</u>

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Medical Center are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Medical Center attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

Summaries of land, buildings, and equipment at June 30, 2006 and 2005, are as follows:

	June 30, 2005			June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Land, buildings, and equipment				
Land and land improvements	\$ 90,463	\$ -	\$ -	\$ 90,463
Building	3,372,339	40,000	-	3,412,339
Fixed equipment	79,325	-	-	79,325
Major movable equipment	2,266,485	90,511	(41,843)	2,315,153
Construction in progress	-	47,170	-	47,170
Total	<u>5,808,612</u>	<u>\$ 177,681</u>	<u>\$ (41,843)</u>	<u>5,944,450</u>
Accumulated depreciation				
Land improvements	14,750	\$ 2,911	\$ -	17,661
Building	1,721,366	166,006	-	1,887,372
Fixed equipment	29,009	5,941	-	34,950
Major movable equipment	<u>1,863,816</u>	<u>110,494</u>	<u>(39,978)</u>	<u>1,934,332</u>
Total	<u>3,628,941</u>	<u>\$ 285,352</u>	<u>\$ (39,978)</u>	<u>3,874,315</u>
Land, buildings, and equipment, net	<u>\$ 2,179,671</u>			<u>\$ 2,070,135</u>
	June 30, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Land, buildings, and equipment				
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	<u>2,156,568</u>	<u>115,475</u>	<u>(5,558)</u>	<u>2,266,485</u>
Total	<u>5,648,781</u>	<u>\$ 165,389</u>	<u>\$ (5,558)</u>	<u>5,808,612</u>
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	<u>1,747,789</u>	<u>120,201</u>	<u>(4,174)</u>	<u>1,863,816</u>
Total	<u>3,329,807</u>	<u>\$ 303,308</u>	<u>\$ (4,174)</u>	<u>3,628,941</u>
Land, buildings, and equipment, net	<u>\$ 2,318,974</u>			<u>\$ 2,179,671</u>

(continued on next page)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

Construction in progress at June 30, 2006, represents implementation of a fire sprinkler system. The estimated remaining cost to complete this project is \$11,000 which will be financed with Medical Center cash reserves.

**NOTE 6 – JOINT VENTURE**

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

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in long-term debt at June 30, 2006 and 2005, is as follows:

	Balance June 30, 2005	Additions	Payments (Amortization)	Balance June 30, 2006	Amounts Due Within One Year
Notes payable	\$ 214,838	\$ -	\$ (214,838)	\$ -	\$ -
Obligations under capital lease	14,557	-	(9,825)	<b>4,732</b>	4,732
Total long-term debt	<u>\$ 229,395</u>	<u>\$ -</u>	<u>\$ (224,663)</u>	<b>4,732</b>	<u>\$ 4,732</u>
Less current maturities				<b>(4,732)</b>	
Long-term debt, less current maturities				<u>\$ -</u>	

	Balance June 30, 2004	Additions	Payments (Amortization)	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>	229,395	<u>\$ 30,501</u>
Less current maturities				<u>(30,501)</u>	
Long-term debt, less current maturities				<u>\$ 198,894</u>	

The notes payable bear interest of 5.0%. They were paid in full during fiscal year 2006. Leases require monthly payments of principal and interest at 6.25% - 8.86% and mature in February 2007.

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

Year Ending June 30,	Capital lease obligation	
	Principal	Interest
2007	<u>\$ 4,732</u>	<u>\$ 120</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 8 – LEASES**

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2006 and 2005, for all operating leases was \$21,835 and \$23,229, respectively. The capitalized leased assets consist of:

	<u>2006</u>	<u>2005</u>
Major movable equipment	\$ -	\$ 22,109
Fixed equipment	-	23,633
Total	-	45,742
Accumulated depreciation	-	(19,743)
	<u>\$ -</u>	<u>\$ 25,999</u>

**NOTE 9 – 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 covered salary and the Medical Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$105,026, \$99,704, and \$95,562, respectively, equal to the required contributions for each year.

**NOTE 10 – RELATED ORGANIZATIONS**

*Master Affiliation Agreement*

The Medical Center entered into 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 under the name of Belmond Community Hospital, d/b/a Belmond Medical Center. As a part of this Master Affiliation Agreement, the Medical Center entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$897,383 and \$926,403 for the years ended June 30, 2006 and 2005, respectively.

Operating income and losses from the consolidated operation of the Medical Center and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. No net operating income (losses) was allocated between MMC-NI and the Medical Center for the years ended June 30, 2006 and 2005.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Management Services Agreement*

The Medical Center has a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Medical Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Medical Center. Expenses for the administrative and management services received for the years ended June 30, 2006 and 2005, were \$252,288 and \$230,921, respectively.

*Due to and from Affiliated Organizations*

As of June 30, 2006 and 2005, the Medical Center's records reflect a due to MMC-NI of \$212,110 and \$167,449, respectively, for the various services and distributions 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 \$17,875 and \$86,000 for fiscal years ended June 30, 2006 and 2005, 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, 2006 and 2005, the Auxiliary made contributions to the Medical Center of \$2,467 and \$5,230, respectively.

**NOTE 11 – 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, 2006, were \$5,643,860 as compared to the budgeted amount of \$6,046,110.

**NOTE 12 – CONTINGENCIES**

*Malpractice Insurance*

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. 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.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Healthcare Legislation and Regulation*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Medical Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

**NOTE 13 – RISK MANAGEMENT**

Belmond Community Hospital, d/b/a Belmond 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. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 14 – CONCENTRATION OF CREDIT RISK**

The Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	48%	44%
Medicaid	4	4
Commercial insurance	24	27
Other third-party payors and patients	<u>24</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

**BELMOND COMMUNITY HOSPITAL  
d/b/a BELMOND MEDICAL CENTER**



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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The Board of Trustees  
Belmond Community Hospital  
d/b/a Belmond Medical Center  
Belmond, Iowa

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the primary government of Belmond Medical Center (Medical Center) taken as a whole. The 2006 supplementary information is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information, except for the Schedule of Statistical Information on page 29 marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

The 2005 supplementary information is presented for purposes of additional analysis and is not a required part of the 2005 basic financial statements. Such information, except for the Schedule of Statistical Information on page 29 marked "unaudited," was subjected to the auditing procedures applied by other auditors in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 13, 2006

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	TOTAL	
	2006	2005
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 201,681	\$ 241,809
Swing-bed	<u>344,308</u>	<u>220,130</u>
Total	<u>545,989</u>	<u>461,939</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	334,337	368,216
Anesthesiology	244,563	224,735
Radiology	1,100,929	1,208,132
Nuclear medicine	194,222	-
Laboratory	1,471,090	1,780,184
Respiratory therapy	314,124	237,271
Occupational therapy	120,117	101,873
Physical therapy	386,706	394,592
Speech therapy	20,501	4,307
Medical and surgical supplies	395,885	368,258
Pharmacy	854,678	657,165
Clinic	1,335,542	1,355,877
Emergency services	395,637	337,334
Diabetic	3,651	2,597
Ambulance	195,552	247,405
Fitness center	<u>7,420</u>	<u>29,382</u>
Total	<u>7,374,954</u>	<u>7,317,328</u>
Charity care	<u>(11,118)</u>	<u>(13,945)</u>
Total patient service revenue	<u>7,909,825</u>	<u>7,765,322</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(1,441,518)	(1,394,747)
Medicaid	(162,715)	(126,233)
Blue Cross	(343,359)	(528,338)
Other	<u>(183,793)</u>	<u>(112,129)</u>
Total contractual adjustments	<u>(2,131,385)</u>	<u>(2,161,447)</u>
NET PATIENT SERVICE REVENUE	5,778,440	5,603,875
PROVISION FOR BAD DEBTS	<u>(168,882)</u>	<u>(148,735)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 5,609,558</u>	<u>\$ 5,455,140</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 201,681	\$ 242,337	\$ -	\$ (528)
<u>344,308</u>	<u>220,130</u>	<u>-</u>	<u>-</u>
<b>545,989</b>	<b>462,467</b>	<b>-</b>	<b>(528)</b>
1,856	16,915	332,481	351,301
2,744	15,932	241,819	208,803
73,628	81,698	1,027,301	1,126,434
-	-	194,222	-
149,375	211,880	1,321,715	1,568,304
115,012	116,912	199,112	120,359
62,590	40,286	57,527	61,587
84,079	61,063	302,627	333,529
4,377	311	16,124	3,996
201,516	207,362	194,369	160,896
188,959	222,565	665,719	434,600
75,049	34,435	1,260,493	1,321,442
-	-	395,637	337,334
-	-	3,651	2,597
271	3,599	195,281	243,806
<u>1,339</u>	<u>1,743</u>	<u>6,081</u>	<u>27,639</u>
<b>960,795</b>	<b>1,014,701</b>	<b>6,414,159</b>	<b>6,302,627</b>
<u>\$ 1,506,784</u>	<u>\$ 1,477,168</u>	<u>\$ 6,414,159</u>	<u>\$ 6,302,099</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 44,494	\$ 39,699
Cafeteria sales	31,630	29,770
Rent income	16,445	22,212
Medical records transcripts	1,519	608
County reimbursement for ambulance operation	-	7,803
Other	<u>3,167</u>	<u>4,091</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 97,255</u>	 <u>\$ 104,183</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 42,181	\$ 31,899
Supplies and other expenses	<u>35,906</u>	<u>18,921</u>
	<u>78,087</u>	<u>50,820</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	593,515	525,388
Supplies and other expenses	<u>29,950</u>	<u>14,109</u>
	<u>623,465</u>	<u>539,497</u>
<b>OPERATING ROOM</b>		
Salaries and wages	42,540	43,946
Supplies and other expenses	<u>42,909</u>	<u>40,375</u>
	<u>85,449</u>	<u>84,321</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>82,936</u>	<u>84,152</u>
<b>RADIOLOGY</b>		
Salaries and wages	134,033	126,121
Supplies and other expenses	<u>258,209</u>	<u>320,156</u>
	<u>392,242</u>	<u>446,277</u>
<b>NUCLEAR MEDICINE</b>		
Supplies and other expenses	<u>39,313</u>	<u>-</u>
<b>LABORATORY</b>		
Salaries and wages	145,116	146,033
Supplies and other expenses	<u>201,182</u>	<u>247,240</u>
	<u>346,298</u>	<u>393,273</u>
<b>RESPIRATORY THERAPY</b>		
Supplies and other expenses	<u>130,058</u>	<u>142,747</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>50,696</u>	<u>57,485</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	27,520	36,739
Supplies and other expenses	<u>136,271</u>	<u>139,792</u>
	<u>163,791</u>	<u>176,531</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>8,786</u>	<u>2,970</u>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	\$ 24,275	\$ 32,790
Supplies and other expenses	<u>7,609</u>	<u>7,102</u>
	<u><b>31,884</b></u>	<u>39,892</u>
<b>MEDICAL SUPPLIES CHARGED TO PATIENTS</b>		
Supplies and other expenses	<u>78,432</u>	<u>58,264</u>
<b>DRUGS CHARGED TO PATIENTS</b>		
Salaries and wages	8,163	6,862
Supplies and other expenses	<u>118,335</u>	<u>121,860</u>
	<u><b>126,498</b></u>	<u>128,722</u>
<b>CLINIC</b>		
Salaries and wages	232,475	237,252
Supplies and other expenses	<u>607,657</u>	<u>658,901</u>
	<u><b>840,132</b></u>	<u>896,153</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	44,150	54,965
Supplies and other expenses	<u>160,451</u>	<u>136,970</u>
	<u><b>204,601</b></u>	<u>191,935</u>
<b>AMBULANCE</b>		
Salaries and wages	45,629	29,603
Supplies and other expenses	<u>17,753</u>	<u>23,144</u>
	<u><b>63,382</b></u>	<u>52,747</u>
<b>DIABETIC</b>		
Salaries and wages	-	825
Supplies and other expenses	<u>3,881</u>	<u>1,913</u>
	<u><b>3,881</b></u>	<u>2,738</u>
<b>FITNESS CENTER</b>		
Supplies and other expenses	<u>31,670</u>	<u>66,729</u>
<b>ELECTROENCEPHALOGRAPHY</b>		
Supplies and other expenses	<u>102,797</u>	<u>59,791</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	124,986	129,157
Supplies and other expenses	<u>74,702</u>	<u>71,019</u>
	<u><b>199,688</b></u>	<u>200,176</u>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
DIETARY		
Salaries and wages	\$ 88,353	\$ 79,483
Supplies and other expenses	<u>46,062</u>	<u>45,702</u>
	<u>134,415</u>	<u>125,185</u>
OPERATION OF PLANT		
Salaries and wages	52,698	43,201
Supplies and other expenses	<u>159,465</u>	<u>119,737</u>
	<u>212,163</u>	<u>162,938</u>
HOUSEKEEPING		
Salaries and wages	42,331	41,243
Supplies and other expenses	<u>7,623</u>	<u>7,643</u>
	<u>49,954</u>	<u>48,886</u>
LAUNDRY AND LINEN		
Supplies and other expenses	<u>19,029</u>	<u>16,387</u>
BUSINESS OFFICE		
Salaries and wages	104,887	97,718
Supplies and other expenses	<u>62,829</u>	<u>49,450</u>
	<u>167,716</u>	<u>147,168</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	93,627	80,171
Supplies and other expenses	<u>485,406</u>	<u>494,137</u>
	<u>579,033</u>	<u>574,308</u>
UNASSIGNED EXPENSES		
Depreciation	285,352	303,308
Interest and amortization	8,655	17,165
Employee benefits	<u>503,457</u>	<u>454,531</u>
	<u>797,464</u>	<u>775,004</u>
TOTAL OPERATING EXPENSES	<u>\$ 5,643,860</u>	<u>\$ 5,525,096</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

ANALYSIS OF AGING	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 680,220	56.35%	\$ 557,388	45.76%
31 to 60 days	243,679	20.19%	217,754	17.88%
61 to 90 days	53,362	4.42%	154,408	12.68%
91 days and over	229,837	19.04%	288,524	23.68%
	<u>1,207,098</u>	<u>100.00%</u>	<u>1,218,074</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	149,826		148,309	
Allowance for contractual adjustments	<u>255,350</u>		<u>189,373</u>	
Net	<u>\$ 801,922</u>		<u>\$ 880,392</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 15,369</u>		<u>\$ 14,946</u>	
Days of net revenue in net accounts receivable at year end	<u>52</u>		<u>59</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2006	2005
Beginning Balance	\$ 148,309	\$ 84,512
Add:		
Provision for bad debts	168,882	148,735
Recoveries previously written off	<u>154,732</u>	<u>78,955</u>
	<u>323,614</u>	<u>227,690</u>
Less:		
Accounts written off	<u>(322,097)</u>	<u>(163,893)</u>
Ending Balance	<u>\$ 149,826</u>	<u>\$ 148,309</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
SUPPLIES		
General	\$ 28,719	\$ 31,247
Pharmacy	45,852	44,982
Dietary	5,927	3,906
Other	<u>18,441</u>	<u>16,398</u>
Total supplies	<u>\$ 98,939</u>	<u>\$ 96,533</u>
PREPAID EXPENSE		
Insurance	\$ 10,961	\$ 2,953
Other	<u>58,304</u>	<u>50,101</u>
Total prepaid expense	<u>\$ 69,265</u>	<u>\$ 53,054</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)**

	<u>2006</u>	<u>2005</u>
<b>PATIENT DAYS</b>		
Acute	<b>339</b>	457
Swing-bed and intermediate	<b>1,440</b>	932
<b>ADMISSIONS</b>		
Acute	<b>118</b>	160
Swing-bed and intermediate	<b>118</b>	104
<b>DISCHARGES</b>		
Acute	<b>117</b>	162
Swing-bed and intermediate	<b>120</b>	103
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>2.90</b>	2.82
Swing-bed and intermediate	<b>12.00</b>	9.04
<b>BEDS</b>	<b>22</b>	22
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 22 beds	<b>4.2%</b>	5.7%
Swing-bed, based on 22 beds	<b>17.9%</b>	11.6%



CPAs & BUSINESS ADVISORS

**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**

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The Board of Trustees  
Belmond Community Hospital  
d/b/a Belmond Medical Center  
Belmond, Iowa

We have audited the accompanying balance sheet of **Belmond Community Hospital, d/b/a Belmond Medical Center**, as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of **Belmond Community Hospital, d/b/a Belmond Medical Center**, as of June 30, 2005, were audited by other auditors whose report dated September 21, 2005, expressed an unqualified opinion on those financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the internal control over financial reporting of **Belmond Community Hospital, d/b/a Belmond Medical Center**, 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 the ability of **Belmond Community Hospital, d/b/a Belmond Medical Center**, to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I, item I-A-06, in the accompanying 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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of **Belmond Community Hospital, d/b/a Belmond Medical Center**, 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2006, 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.

We also noted a certain additional matter that we reported to management of **Belmond Community Hospital, d/b/a Belmond Medical Center**, in a separate letter dated September 13, 2006.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Belmond Community Hospital, d/b/a Belmond Medical Center**, and other parties to whom **Belmond Community Hospital, d/b/a Belmond Medical Center**, may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Belmond Community Hospital, d/b/a Belmond Medical Center**, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 13, 2006

**BELMOND COMMUNITY HOSPITAL  
d/b/a BELMOND MEDICAL CENTER  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2006 AND 2005**

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**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITION:**

I-A-06 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Medical Center should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

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

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-D-06 Business Transactions – Business transactions between the Medical Center and Medical Center officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description
Tom Christianson, Board Member, part owner of Jaspersen Insurance	The Medical Center obtains insurance through this agency.
Steve Been, Board Member, part owner of PSI Printing Company	\$15,000 for services

II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULE OF FINDINGS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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

- II-F-06     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Medical Center’s investment policy were noted.
- II-G-06     Chapter 28E Organization – The Medical Center has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has contracted for an audit under the provisions of Chapter 28E.