

*Belmont Medical
Center*
Centering Health Care Around You

**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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Frank Beminio	Chairperson	2009
Tom Christianson	Vice-Chairperson	2011
Steve Been	Secretary	2011
Terri Havens	Member	2009
Brad Robson	Member	2011
<u>Medical Center Officials</u>		
Nancy Gabrielson	Administrator/Chief Executive Officer	
Greg Polzin	Chief Financial Officer	



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the primary government of Belmond Community Hospital, d/b/a Belmond Medical Center, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 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, 2009 and 2008, and the changes in its financial position and its cash flows for the years 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2009, 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 audits.

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. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
October 12, 2009

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, 2009. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Medical Center's total assets increased by \$1,583,128 or 30.7%. A significant portion of this increase represents an increase in capital equipment and construction in progress.
- The Medical Center's assets exceeded liabilities by \$4,409,783 at June 30, 2009. Borrowing occurred during the year to help finance the construction in progress related to a major building remodel and addition project.
- During the year, the Medical Center's total operating revenues increased 22.8% to \$9,496,459 while the operating expenses increased by 23.1% to \$9,127,483. The Medical Center had operating income of \$368,976 which is 3.9% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling \$1,838,418 during the fiscal year. The source of funding for these items was derived from operations, contributions, and borrowings.

Overview of the Financial Statements

The basic financial statements of the Medical Center 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 Medical Center's assets and liabilities. The balance sheets at June 30, 2009, report total assets of \$6,739,387, total liabilities of \$2,329,604, and net assets of \$4,409,783.

The statements of revenues, expenses, and changes in net assets provide information on the Medical Center's revenues and expenses. These statements indicate total operating revenues of \$9,496,459 and total operating expenses of \$9,127,483 during fiscal year 2009. The operating income was \$368,976 in 2009, compared to an operating income of \$316,444 in 2008.

There are notes to the financial statements included in the annual financial 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 Medical Center'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 six note payables for equipment purchases made and construction in progress. The total owed on all notes including current maturities at year end was \$1,137,691.

Factors Bearing on Financial Future

Belmond Community Hospital's financial position continued to improve. Total Operating Revenues increased 22.8% and there was an increase in operating income as well. Contracts with third-party payors did increase. However, expenses were well controlled. The current condition of the economy continues to be a concern for Medical Center officials. Some of the realities that might potentially become challenges for the Medical Center are as follows:

- Expenses will continue to increase
- Facilities at the Medical Center require constant maintenance and upkeep as the Medical Center plans an expansion and remodel project
- There is a lack of space due to the current and expected growth
- Technology continues to expand and current technology becomes outdated, presenting an on-going challenge to maintain up-to-date technology at a reasonable cost, especially in the area of electronic medical record technology
- Potential changes in federal and state reimbursement for patient services

Belmond Community Hospital anticipates the next fiscal year will be busier than the last and total operating revenues should increase. The Administration will maintain a close watch over resources to maintain the Medical Center'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 1st St. S.E.
Belmond, IA 50421

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 993,819	\$ 1,165,819
Receivables		
Patient, net of estimated uncollectibles		
of \$1,387,000 in 2009 and \$851,000 in 2008	1,621,939	1,254,805
Other	4,158	10,668
Supplies	114,106	122,601
Prepaid expense	66,876	44,933
Total current assets	<u>2,800,898</u>	<u>2,598,826</u>
ASSETS LIMITED AS TO USE - Note 4		
Internally designated for ambulance	<u>57,094</u>	<u>92,840</u>
CAPITAL ASSETS, net - Note 5	<u>3,878,209</u>	<u>2,454,924</u>
OTHER ASSETS		
Notes receivable	3,186	5,804
Joint venture - Note 6	-	3,865
Total other assets	<u>3,186</u>	<u>9,669</u>
Total assets	<u>\$ 6,739,387</u>	<u>\$ 5,156,259</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 374,831	\$ 100,372
Accounts payable		
Trade	606,993	450,135
Construction	143,578	-
Estimated third-party payor settlements	110,000	150,000
Accrued expenses		
Salaries and wages	129,754	122,077
Vacation	160,153	140,153
Payroll taxes and employee benefits	39,317	47,693
Interest	2,118	282
	<u>1,566,744</u>	<u>1,010,712</u>
LONG-TERM DEBT, less current maturities - Note 7	<u>762,860</u>	<u>191,074</u>
Total liabilities	<u>2,329,604</u>	<u>1,201,786</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,740,518	2,163,478
Unrestricted	<u>1,669,265</u>	<u>1,790,995</u>
Total net assets	<u>4,409,783</u>	<u>3,954,473</u>
Total liabilities and net assets	<u>\$ 6,739,387</u>	<u>\$ 5,156,259</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$560,498 in 2009 and \$331,125 in 2008 - Notes 2 and 3)	\$ 9,442,785	\$ 7,671,090
Other operating revenues	<u>53,674</u>	<u>60,866</u>
TOTAL OPERATING REVENUES	<u>9,496,459</u>	<u>7,731,956</u>
OPERATING EXPENSES		
Salaries and wages	2,920,177	2,728,066
Employee benefits	834,884	706,320
Supplies and other expenses	4,957,289	3,713,529
Depreciation	<u>415,133</u>	<u>267,597</u>
TOTAL OPERATING EXPENSES	<u>9,127,483</u>	<u>7,415,512</u>
OPERATING INCOME	<u>368,976</u>	<u>316,444</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	15,392	27,181
Noncapital grants and contributions	65,526	49,869
Interest expense	(27,948)	(3,678)
Other	<u>3,364</u>	<u>5,708</u>
TOTAL NONOPERATING REVENUES	<u>56,334</u>	<u>79,080</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	425,310	395,524
Capital contributions and grants	<u>30,000</u>	<u>161,429</u>
INCREASE IN NET ASSETS	455,310	556,953
NET ASSETS, BEGINNING OF YEAR	<u>3,954,473</u>	<u>3,397,520</u>
NET ASSETS, END OF YEAR	<u>\$ 4,409,783</u>	<u>\$ 3,954,473</u>

See notes to financial statements.

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 9,035,651	\$ 7,655,038
Payments of salaries and wages	(2,912,500)	(2,687,605)
Payments of supplies and other expenses	(5,483,379)	(4,288,429)
Other receipts and payments, net	<u>56,292</u>	<u>64,507</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>696,064</u>	<u>743,511</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	65,526	49,869
Other income	<u>395</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>65,921</u>	<u>49,869</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(1,838,418)	(793,615)
Proceeds from sale of property and equipment	142	1,000
Interest payments on long-term debt	(29,784)	(3,960)
Proceeds from issuance of long-term debt	1,261,925	330,489
Principal payments on long-term debt	(415,680)	(39,043)
Capital contributions and grants	<u>30,000</u>	<u>161,429</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(991,815)</u>	<u>(343,700)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use	35,746	(16,583)
Distribution from joint venture	6,692	17,000
Investment income	<u>15,392</u>	<u>27,181</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>57,830</u>	<u>27,598</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(172,000)	477,278
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,165,819</u>	<u>688,541</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 993,819</u></u>	<u><u>\$ 1,165,819</u></u>

(continued)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 368,976	\$ 316,444
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	415,133	267,597
Provision for bad debts	560,498	331,125
Changes in assets and liabilities		
Patient receivables	(927,632)	(577,177)
Estimated third-party payor settlements	(40,000)	230,000
Other receivables	6,510	6,065
Supplies	8,495	(31,065)
Prepaid expense	(21,943)	13,810
Notes receivable	2,618	3,641
Accounts payable	300,436	133,188
Accrued expenses	<u>22,973</u>	<u>49,883</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 696,064</u>	<u>\$ 743,511</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Belmond Medical Center (Medical Center) is a 22-bed municipal hospital of the City of Belmond, organized under Chapter 392 of the Code of Iowa. As of March 1, 2007, the Medical Center provides health care services in accordance with a Master Affiliation Agreement with Wright Medical Center. 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.

The Medical Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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 legally separate 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 sheets display 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, 2009 and 2008.

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, 2009 AND 2008

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 estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use.

Patient Receivables

Patient receivables are uncollateralized patient 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 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, 2009 AND 2008

Supplies

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

Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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 class of depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets 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, 2009 and 2008, respectively.

Compensated Absences

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, 2009 and 2008.

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 nonexchange transactions associated with providing health care services – the Medical Center's principal activity. Nonexchange revenues, including interest income, grants, and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 \$28,127 and \$42,194 for advertising costs for the years ended June 30, 2009 and 2008, 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.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

Subsequent Events

The Medical Center has evaluated subsequent events through October 12, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

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

(continued on next page)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$54,195 and \$19,661 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon an overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$32,000 and \$12,000, respectively.

In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Medical Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

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, 2007.

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, 2006.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 5%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009, and 60% and 2%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2008.

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.

(continued on next page)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 15,262,018</u>	<u>\$ 11,633,867</u>
Contractual adjustments:		
Medicare	(3,735,913)	(2,503,909)
Medicaid	(228,382)	(334,866)
Blue Cross	(823,670)	(513,876)
Other	<u>(470,770)</u>	<u>(279,001)</u>
Total contractual adjustments	<u>(5,258,735)</u>	<u>(3,631,652)</u>
Net patient service revenue	10,003,283	8,002,215
Provision for bad debts	<u>(560,498)</u>	<u>(331,125)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,442,785</u>	<u>\$ 7,671,090</u>

NOTE 4 – CASH AND DEPOSITS

The Medical Center's deposits in banks at June 30, 2009 and 2008, 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, 2009 and 2008, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	<u>\$ 368,444</u>	<u>\$ 76,164</u>
Repurchase agreement invested in U.S. government bonds and securities	682,469	1,149,592
Certificates of deposit	-	32,903
Total deposits	<u>\$ 1,050,913</u>	<u>\$ 1,258,659</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 993,819	\$ 1,165,819
Assets limited as to use	<u>57,094</u>	<u>92,840</u>
Total deposits	<u>\$ 1,050,913</u>	<u>\$ 1,258,659</u>

(continued on next page)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

NOTE 5 – CAPITAL ASSETS

Summaries of capital assets at June 30, 2009 and 2008, are as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land and land improvements	\$ 182,854	\$ 59,993	\$ -	\$ -	\$ 242,847
Building	3,438,951	25,777	(73,376)	-	3,391,352
Fixed equipment	165,921	-	(3,132)	-	162,789
Major movable equipment	2,458,759	547,109	(502,824)	-	2,503,044
Construction in progress	8,884	1,265,543	-	-	1,274,427
Total	<u>6,255,369</u>	<u>\$ 1,898,422</u>	<u>\$ (579,332)</u>	<u>\$ -</u>	<u>7,574,459</u>
Accumulated depreciation					
Land improvements	22,835	\$ 5,143	\$ -	\$ -	27,978
Building	2,138,976	126,886	(17,468)	-	2,248,394
Fixed equipment	54,295	10,946	(3,133)	-	62,108
Major movable equipment	1,584,339	272,158	(498,727)	-	1,357,770
Total	<u>3,800,445</u>	<u>\$ 415,133</u>	<u>\$ (519,328)</u>	<u>\$ -</u>	<u>3,696,250</u>
Capital assets, net	<u>\$ 2,454,924</u>				<u>\$ 3,878,209</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital assets					
Land and land improvements	\$ 90,463	\$ 92,391	\$ -	\$ -	\$ 182,854
Building	3,404,604	34,347	-	-	3,438,951
Fixed equipment	160,547	5,374	-	-	165,921
Major movable equipment	2,328,420	668,404	(538,065)	-	2,458,759
Construction in progress	-	8,884	-	-	8,884
Total	<u>5,984,034</u>	<u>\$ 809,400</u>	<u>\$ (538,065)</u>	<u>\$ -</u>	<u>6,255,369</u>
Accumulated depreciation					
Land improvements	20,455	\$ 2,380	\$ -	\$ -	22,835
Building	2,013,513	125,463	-	-	2,138,976
Fixed equipment	44,334	9,961	-	-	54,295
Major movable equipment	<u>1,976,826</u>	<u>129,793</u>	<u>(522,280)</u>	<u>-</u>	<u>1,584,339</u>
Total	<u>4,055,128</u>	<u>\$ 267,597</u>	<u>\$ (522,280)</u>	<u>\$ -</u>	<u>3,800,445</u>
Capital assets, net	<u>\$ 1,928,906</u>				<u>\$ 2,454,924</u>

Construction in progress at June 30, 2009, consists of costs related to the major building remodel and addition project and the CT/Lab remodel projects. The project size, completion date and funding sources for the major building remodel and addition project are not final determined at this time. The CT/Lab remodel was completed in August 2009 at a total cost of approximately \$220,000. This project was financed through hospital operations.

NOTE 6 – JOINT VENTURE

The joint venture represented 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. Effective 1/1/09, the Medical Center dissolved its partnership interest in Mobile Radiology.

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2009 and 2008, is as follows:

	Balance June 30, 2008	Additions	Payments (Amortization)	Balance June 30, 2009	Amounts Due Within One Year
4.50% note payable, due in monthly installments through February 2012, secured by equipment	\$ 230,286	\$ 88,925	\$ (84,922)	\$ 234,289	\$ 87,193
5.15% note payable, due in monthly installments through October 2012, secured by equipment	61,160	-	(12,934)	48,226	13,665
4.00% note payable, due in monthly installments through November 2013, secured by equipment	-	299,000	(31,942)	267,058	124,346
4.00% note payable, due in monthly installments through January 2014, secured by equipment	-	574,000	(285,882)	288,118	123,505
3.00% note payable, due in monthly installments through June 2019, secured by irrevocable letter of credit	-	150,000	-	150,000	13,061
3.00% note payable, due in monthly installments through June 2019, secured by irrevocable letter of credit	-	150,000	-	150,000	13,061
Total long-term debt	<u>\$ 291,446</u>	<u>\$ 1,261,925</u>	<u>\$ (415,680)</u>	<u>1,137,691</u>	<u>\$ 374,831</u>
Less current maturities				<u>(374,831)</u>	
Long-term debt, less current maturities				<u>\$ 762,860</u>	

(continued on next page)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	Balance June 30, 2007	Additions	Payments (Amortization)	Balance June 30, 2008	Amounts Due Within One Year
5.15% note payable, due in monthly installments through October 2012, secured by equipment	\$ -	\$ 69,414	\$ (8,254)	\$ 61,160	\$ 13,000
4.50% note payable, due in monthly installments through February 2012, secured by equipment	-	261,075	(30,789)	230,286	87,372
Total long-term debt	<u>\$ -</u>	<u>\$ 330,489</u>	<u>\$ (39,043)</u>	<u>291,446</u>	<u>\$ 100,372</u>
Less current maturities				<u>(100,372)</u>	
Long-term debt, less current maturities				<u>\$ 191,074</u>	

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 374,831	\$ 37,386	\$ 412,217
2011	390,141	21,914	412,055
2012	148,396	9,702	158,098
2013	33,660	7,117	40,777
2014	29,447	6,051	35,498
2015-2019	<u>161,216</u>	<u>13,864</u>	<u>175,080</u>
Total	<u>\$ 1,137,691</u>	<u>\$ 96,034</u>	<u>\$ 1,233,725</u>

The Hospital also maintains two irrevocable letters of credit with a local bank, which expire on June 1, 2019. Each letter of credit is for \$150,000 and relates to a surety for the 3.00% notes payable drawn on during 2009. As of June 30, 2009, no amounts were drawn on the letters of credit.

NOTE 8 – LEASES

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as operating leases. Total lease expense for the years ended June 30, 2009 and 2008, for all operating leases was \$119,532 and \$93,515, respectively.

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Minimum future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 271,278
2011	264,998
2012	195,915
2013	191,636
2014	178,800
Thereafter	<u>417,200</u>
Total minimum lease payments	<u>\$ 1,519,827</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 4.10% of their annual covered salary, and the Medical Center is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Medical Center was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$184,617, \$162,490, and \$111,410, respectively, equal to the required contributions for each year.

NOTE 10 – RELATED ORGANIZATIONS

Master Affiliation Agreement

The Medical Center has a Master Affiliation Agreement with Wright Medical Center beginning March 1, 2007, 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 Wright Medical Center whereby Wright Medical Center provides professional medical services. Amounts paid to Wright Medical Center for the provision of these services amounted to \$1,256,069 and \$678,198 for the years ended June 30, 2009 and 2008, respectively.

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Management Services Agreement

The Medical Center has a contractual arrangement with Wright Medical Center beginning March 1, 2007, to provide 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, 2009 and 2008, were \$166,605 and \$145,946, respectively.

Due to and from Affiliated Organizations

As of June 30, 2009 and 2008, the Medical Center's records reflect a due to the Wright Medical Center of \$262,747 and \$83,852, respectively, for the various services and distributions related to these agreements and is included in accounts payable on the balance sheets.

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 \$30,000 and \$144,350 for fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008, the Auxiliary made contributions to the Medical Center of \$5,598 and \$2,167, 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 years ended June 30, 2009 and 2008, were \$9,155,431 and \$7,419,190 as compared to the budgeted amount of \$10,083,925 and \$6,976,625, respectively.

NOTE 12 – CONTINGENCIES

Malpractice Insurance

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on 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, 2009 AND 2008

Excess Liability Umbrella Insurance

The Medical Center also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$2 million per occurrence and an annual aggregate limit of \$2 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.

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 the 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 regulatory 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 covered under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	36%	37%
Medicaid	9%	7%
Commercial insurance	31%	27%
Other third-party payors and patients	<u>24%</u>	<u>29%</u>
	<u>100%</u>	<u>100%</u>

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**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the primary government of Belmond Medical Center taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 31 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
October 12, 2009

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BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 450,092	\$ 441,442
Swing-bed	<u>367,064</u>	<u>380,295</u>
Subtotal	<u>817,156</u>	<u>821,737</u>
OTHER PROFESSIONAL SERVICES		
Operating room	959,683	626,192
Anesthesiology	754,221	499,840
Radiology	2,143,366	1,238,859
Nuclear medicine	533,202	523,193
Laboratory	2,275,151	1,880,308
Respiratory therapy	1,346,413	835,091
Electroencephalography	290,507	221,109
Occupational therapy	161,194	144,828
Physical therapy	632,035	639,244
Enterstomal therapy	1,128	4,048
Cardiac rehab	100,464	79,470
Speech therapy	30,993	8,186
Medical and surgical supplies	983,144	783,619
Pharmacy	1,534,172	956,418
Clinic	1,638,293	1,512,381
Emergency services	807,670	641,650
Diabetic	834	34
Ambulance	305,331	237,321
Fitness center	<u>1,256</u>	<u>-</u>
Subtotal	<u>14,499,057</u>	<u>10,831,791</u>
Total	15,316,213	11,653,528
Charity care	<u>(54,195)</u>	<u>(19,661)</u>
Total patient service revenue	<u>15,262,018</u>	<u>11,633,867</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(3,735,913)	(2,503,909)
Medicaid	(228,382)	(334,866)
Blue Cross	(823,670)	(513,876)
Other	<u>(470,770)</u>	<u>(279,001)</u>
Total contractual adjustments	<u>(5,258,735)</u>	<u>(3,631,652)</u>
NET PATIENT SERVICE REVENUE	10,003,283	8,002,215
PROVISION FOR BAD DEBTS	<u>(560,498)</u>	<u>(331,125)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 9,442,785</u>	<u>\$ 7,671,090</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 450,092	\$ 441,442	\$ -	\$ -
367,064	380,295	-	-
817,156	821,737	-	-
77,802	78,563	881,881	547,629
49,745	42,426	704,476	457,414
248,879	216,979	1,894,487	1,021,880
-	4,138	533,202	519,055
328,824	385,943	1,946,327	1,494,365
696,684	498,937	649,729	336,154
-	5,742	290,507	215,367
83,910	85,714	77,284	59,114
150,648	138,417	481,387	500,827
-	-	1,128	4,048
-	-	100,464	79,470
4,958	5,563	26,035	2,623
471,950	495,001	511,194	288,618
517,271	511,000	1,016,901	445,418
164,241	166,206	1,474,052	1,346,175
-	-	807,670	641,650
-	-	834	34
788	3,870	304,543	233,451
1,256	-	-	-
2,796,956	2,638,499	11,702,101	8,193,292
\$ 3,614,112	\$ 3,460,236	\$ 11,702,101	\$ 8,193,292

**BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 27,546	\$ 30,462
Rent income	11,744	16,262
Cafeteria sales	10,162	10,479
Medical records transcripts	680	619
Other	<u>3,542</u>	<u>3,044</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 53,674</u>	 <u>\$ 60,866</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 70,999	\$ 67,406
Supplies and other expenses	<u>3,727</u>	<u>10,049</u>
	<u>74,726</u>	<u>77,455</u>
ADULTS AND PEDIATRICS		
Salaries and wages	667,331	650,277
Supplies and other expenses	<u>92,665</u>	<u>52,247</u>
	<u>759,996</u>	<u>702,524</u>
OPERATING ROOM		
Salaries and wages	148,874	87,593
Supplies and other expenses	<u>264,553</u>	<u>113,498</u>
	<u>413,427</u>	<u>201,091</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>237,999</u>	<u>149,165</u>
RADIOLOGY		
Salaries and wages	191,336	162,109
Supplies and other expenses	<u>631,738</u>	<u>279,581</u>
	<u>823,074</u>	<u>441,690</u>
NUCLEAR MEDICINE		
Supplies and other expenses	<u>96,475</u>	<u>95,455</u>
LABORATORY		
Salaries and wages	213,358	194,148
Supplies and other expenses	<u>226,810</u>	<u>220,019</u>
	<u>440,168</u>	<u>414,167</u>
RESPIRATORY THERAPY		
Supplies and other expenses	<u>513,247</u>	<u>309,148</u>
OCCUPATIONAL THERAPY		
Salaries and wages	38,732	15,891
Supplies and other expenses	<u>39,787</u>	<u>54,778</u>
	<u>78,519</u>	<u>70,669</u>
PHYSICAL THERAPY		
Salaries and wages	159,181	71,060
Supplies and other expenses	<u>103,112</u>	<u>161,004</u>
	<u>262,293</u>	<u>232,064</u>
SPEECH THERAPY		
Supplies and other expenses	<u>13,889</u>	<u>1,395</u>

(continued)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	\$ 65,475	\$ 37,142
Supplies and other expenses	3,870	12,247
	<u>69,345</u>	<u>49,389</u>
MEDICAL SUPPLIES CHARGED TO PATIENTS		
Supplies and other expenses	<u>152,808</u>	<u>106,112</u>
DRUGS CHARGED TO PATIENTS		
Salaries and wages	22,347	9,408
Supplies and other expenses	195,561	201,944
	<u>217,908</u>	<u>211,352</u>
CLINIC		
Salaries and wages	291,069	419,412
Supplies and other expenses	629,527	366,565
	<u>920,596</u>	<u>785,977</u>
EMERGENCY SERVICES		
Salaries and wages	53,166	120,040
Supplies and other expenses	486,000	429,587
	<u>539,166</u>	<u>549,627</u>
AMBULANCE		
Salaries and wages	108,430	76,424
Supplies and other expenses	33,973	47,464
	<u>142,403</u>	<u>123,888</u>
DIABETIC		
Supplies and other expenses	<u>27</u>	<u>-</u>
FITNESS CENTER		
Salaries and wages	594	627
Supplies and other expenses	22,742	16,810
	<u>23,336</u>	<u>17,437</u>
ELECTROENCEPHALOGRAPHY		
Supplies and other expenses	<u>185,064</u>	<u>139,539</u>
MEDICAL RECORDS		
Salaries and wages	182,472	202,816
Supplies and other expenses	66,088	34,020
	<u>248,560</u>	<u>236,836</u>

(continued)

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
DIETARY		
Salaries and wages	\$ 119,618	\$ 102,625
Supplies and other expenses	<u>72,485</u>	<u>52,464</u>
	<u>192,103</u>	<u>155,089</u>
OPERATION OF PLANT		
Salaries and wages	102,712	82,223
Supplies and other expenses	<u>153,480</u>	<u>176,527</u>
	<u>256,192</u>	<u>258,750</u>
HOUSEKEEPING		
Salaries and wages	49,318	46,139
Supplies and other expenses	<u>17,069</u>	<u>13,084</u>
	<u>66,387</u>	<u>59,223</u>
LAUNDRY AND LINEN		
Supplies and other expenses	<u>22,658</u>	<u>20,267</u>
BUSINESS OFFICE		
Salaries and wages	224,229	193,145
Supplies and other expenses	<u>216,492</u>	<u>138,539</u>
	<u>440,721</u>	<u>331,684</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	210,936	189,581
Supplies and other expenses	<u>475,443</u>	<u>512,021</u>
	<u>686,379</u>	<u>701,602</u>
UNASSIGNED EXPENSES		
Depreciation	415,133	267,597
Employee benefits	<u>834,884</u>	<u>706,320</u>
	<u>1,250,017</u>	<u>973,917</u>
TOTAL OPERATING EXPENSES	<u>\$ 9,127,483</u>	<u>\$ 7,415,512</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2009 AND 2008

ANALYSIS OF AGING	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 960,952	31.94%	\$ 907,599	43.10%
31 to 60 days	682,459	22.68%	353,808	16.80%
61 to 90 days	360,313	11.97%	210,546	10.00%
91 days and over	1,005,223	33.41%	633,667	30.10%
	<u>3,008,947</u>	<u>100.00%</u>	<u>2,105,620</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	509,426		364,643	
Allowance for contractual adjustments	877,582		486,172	
Net	<u>\$ 1,621,939</u>		<u>\$ 1,254,805</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 25,871</u>		<u>\$ 21,017</u>	
Days of net revenue in net accounts receivable at year end	<u>63</u>		<u>60</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2009	2008
Beginning Balance	<u>\$ 364,643</u>	<u>\$ 157,114</u>
Add:		
Provision for bad debts	560,498	331,125
Recoveries previously written off	49,049	114,696
	<u>609,547</u>	<u>445,821</u>
Less:		
Accounts written off	(464,764)	(238,292)
Ending Balance	<u>\$ 509,426</u>	<u>\$ 364,643</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Pharmacy	\$ 45,443	\$ 47,739
General	44,206	40,950
Dietary	6,864	7,707
Other	<u>17,593</u>	<u>26,205</u>
 Total supplies	 <u>\$ 114,106</u>	 <u>\$ 122,601</u>
 PREPAID EXPENSE		
Insurance	\$ 12,206	\$ 6,475
Other	<u>54,670</u>	<u>38,458</u>
 Total prepaid expense	 <u>\$ 66,876</u>	 <u>\$ 44,933</u>

BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULES OF STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	617	652
Swing-bed and intermediate	1,032	1,160
ADMISSIONS		
Acute	245	230
Swing-bed and intermediate	108	131
DISCHARGES		
Acute	244	229
Swing-bed and intermediate	108	131
AVERAGE LENGTH OF STAY		
Acute	2.53	2.85
Swing-bed and intermediate	9.56	8.85
BEDS	22	22
OCCUPANCY PERCENTAGE		
Acute, based on 22 beds	7.7%	8.1%
Swing-bed and intermediate, based on 22 beds	12.9%	14.4%



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**

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

We have audited the accompanying balance sheets of the primary government of Belmond Community Hospital, d/b/a Belmond Medical Center, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 12, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2009, 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.

The Medical Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of Belmond Community Hospital, d/b/a Belmond Medical Center, in a separate letter dated October 12, 2009.

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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 12, 2009

**BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Medical Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Medical Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Belmond Medical Center. Due to the limited number of office employees, management will continue to monitor the Medical Center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

**BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements: (continued)

I-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Belmont Medical Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Medical Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Medical Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Medical Center's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**BELMOND COMMUNITY HOSPITAL
d/b/a BELMOND MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 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-B-09 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-C-09 Business Transactions – Business transactions between the Medical Center and Medical Center officials and/or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>
Tom Christianson, Board Member, part owner of Jasperson Insurance	The Medical Center obtains insurance through this agency.
Steve Been, Board Member, part owner of PSI Printing Company	\$42,545 for services

II-D-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-E-09 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-F-09 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 conducted an audit in compliance with the provisions of Chapter 28E.



CPAs & BUSINESS ADVISORS

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

We have audited the financial statements of Belmond Community Hospital, d/b/a Belmond Medical Center (Medical Center), for the year ended June 30, 2009, and have issued our report thereon dated October 12, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Belmond Community Hospital, d/b/a Belmond Medical Center, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Medical Center’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

The Board of Trustees
Belmond Community Hospital
d/b/a Belmond Medical Center
Page 3

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management of Belmond Community Hospital, d/b/a Belmond Medical Center, and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Belmond Community Hospital, d/b/a Belmond Medical Center.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 12, 2009

xc: Ms. Nancy Gabrielson, Administrator/CEO