



Financial Statements  
June 30, 2010 and 2009

# Belmond Medical Center

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

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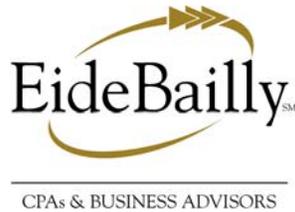
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**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Frank Beminio	Chairperson	2013
Tom Christianson	Vice-Chairperson	2011
Steve Been	Secretary	2011
Terri Havens	Member	2013
Brad Robson	Member	2011
<u>Medical Center Officials</u>		
Nancy Gabrielson	Administrator/Chief Executive Officer	
Greg Polzin	Chief Financial Officer	



## 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 sheets of the primary government of Belmond Community Hospital, d/b/a Belmond Medical Center, as of June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 18, 2010, 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 and the Budgetary Comparison Information on pages 24 and 25 are not required parts of the basic financial statements but are 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 required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed text of the firm's name and location.

Dubuque, Iowa  
October 18, 2010

## Management's Discussion and Analysis

This section of Belmont 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, 2010. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

### Financial Highlights

- The Medical Center's total assets increased by \$896,402 or 13.3%. A significant portion of this increase represents an increase in capital equipment and construction in progress.
- The Medical Center's assets exceeded liabilities by \$4,644,646 at June 30, 2010. 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 4.4% to \$9,910,401 while the operating expenses increased by 6.5% to \$9,718,919. The Medical Center had operating income of \$191,482 which is 1.9% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling \$1,512,200 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 sheet at June 30, 2010, reports total assets of \$7,635,789, total liabilities of \$2,991,143, and net assets of \$4,644,646.

The statement of revenues, expenses, and changes in net assets provides information on the Medical Center's revenues and expenses. These statements indicate total operating revenues of \$9,910,401 and total operating expenses of \$9,718,919 during fiscal year 2010. The operating income was \$191,482 in 2010, compared to an operating income of \$368,976 in 2009.

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, Belmont Community Hospital had seven notes payable for equipment purchases made and construction in progress. The total owed on all notes including current maturities at year end was \$1,600,926.

## **Factors Bearing on Financial Future**

Belmond Community Hospital's financial position remains strong. Total Operating Revenues increased 4.4%. Contracts with third-party payors increased, as well as the amount of charity care awarded. Bad debt expense saw a decrease, however. Total operating expenses saw an increase of 6.5%. The largest increase in operating expenses was from salaries and employee benefits and facility related costs. 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 starts an expansion and remodel project
- There is a lack of space due to the current and expected growth which should be resolved upon completion of the expansion and remodel project
- 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 1<sup>st</sup> St. S.E.  
Belmond, IA 50421

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**BALANCE SHEETS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - Note 4	\$ 684,585	\$ 993,819
Receivables		
Patient, net of estimated uncollectibles		
of \$1,242,000 in 2010 and \$1,387,000 in 2009	1,448,868	1,621,939
Estimated third-party payor settlements	230,000	-
Other	19,733	4,158
Supplies	118,307	114,106
Prepaid expense	<u>158,975</u>	<u>66,876</u>
Total current assets	<u>2,660,468</u>	<u>2,800,898</u>
<b>ASSETS LIMITED AS TO USE - Note 4</b>		
Internally designated for ambulance	<u>63,118</u>	<u>57,094</u>
<b>CAPITAL ASSETS, net - Note 5</b>	<u>4,910,521</u>	<u>3,878,209</u>
<b>OTHER ASSETS</b>		
Notes receivable	<u>1,682</u>	<u>3,186</u>
Total assets	<u>\$ 7,635,789</u>	<u>\$ 6,739,387</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 808,831	\$ 374,831
Accounts payable		
Trade	448,150	344,246
Construction	449,245	143,578
Affiliated organization - Note 9	157,043	262,747
Estimated third-party payor settlements	-	110,000
Accrued expenses		
Salaries and wages	162,296	129,754
Vacation	115,240	160,153
Payroll taxes and employee benefits	54,902	39,317
Interest	<u>3,341</u>	<u>2,118</u>
 Total current liabilities	 <b>2,199,048</b>	 1,566,744
 LONG-TERM DEBT, less current maturities - Note 6	 <u>792,095</u>	 <u>762,860</u>
 Total liabilities	 <u>2,991,143</u>	 <u>2,329,604</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,309,595	2,740,518
Unrestricted	<u>1,335,051</u>	<u>1,669,265</u>
 Total net assets	 <u>4,644,646</u>	 <u>4,409,783</u>
 Total liabilities and net assets	 <u>\$ 7,635,789</u>	 <u>\$ 6,739,387</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$339,567 in 2010 and \$560,498 in 2009 - Notes 2 and 3)	\$ 9,854,893	\$ 9,442,785
Other operating revenues	<u>55,508</u>	<u>53,674</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>9,910,401</u></b>	<b><u>9,496,459</u></b>
OPERATING EXPENSES		
Salaries and wages	3,175,801	2,920,177
Employee benefits	957,585	834,884
Supplies and other expenses	5,116,535	4,957,289
Depreciation	<u>468,998</u>	<u>415,133</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>9,718,919</u></b>	<b><u>9,127,483</u></b>
<b>OPERATING INCOME</b>	<b><u>191,482</u></b>	<b><u>368,976</u></b>
NONOPERATING REVENUES (EXPENSES)		
Investment income	5,767	15,392
Noncapital grants and contributions	84,172	65,526
Interest expense	(48,360)	(27,948)
Other	<u>(3,998)</u>	<u>3,364</u>
<b>NET NONOPERATING REVENUES</b>	<b><u>37,581</u></b>	<b><u>56,334</u></b>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	229,063	425,310
Capital contributions and grants	<u>5,800</u>	<u>30,000</u>
<b>INCREASE IN NET ASSETS</b>	<b>234,863</b>	455,310
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>4,409,783</u></b>	<b><u>3,954,473</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 4,644,646</u></b>	<b><u>\$ 4,409,783</u></b>

See notes to financial statements.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 9,687,964	\$ 9,035,651
Payments of salaries and wages	(3,143,259)	(2,912,500)
Payments of supplies and other expenses	(5,909,010)	(5,483,379)
Other receipts and payments, net	<u>57,012</u>	<u>56,292</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>692,707</b></u>	<u>696,064</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	84,172	65,526
Other income	<u>64</u>	<u>395</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>84,236</b></u>	<u>65,921</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(1,505,372)	(1,838,418)
Proceeds from sale of capital assets	-	142
Interest payments on long-term debt	(49,583)	(29,784)
Proceeds from issuance of long-term debt	761,000	1,261,925
Principal payments on long-term debt	(297,765)	(415,680)
Capital contributions and grants	<u>5,800</u>	<u>30,000</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(1,085,920)</b></u>	<u>(991,815)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in assets limited as to use	(6,024)	35,746
Distribution from joint venture	-	6,692
Investment income	<u>5,767</u>	<u>15,392</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u><b>(257)</b></u>	<u>57,830</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(309,234)</b>	(172,000)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>993,819</b></u>	<u>1,165,819</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 684,585</b></u>	<u>\$ 993,819</u>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 191,482	\$ 368,976
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	468,998	415,133
Provision for bad debts	339,567	560,498
Changes in assets and liabilities		
Patient receivables	(166,496)	(927,632)
Estimated third-party payor settlements	(340,000)	(40,000)
Other receivables	(15,575)	6,510
Supplies	(4,201)	8,495
Prepaid expense	(92,099)	(21,943)
Notes receivable	1,504	2,618
Accounts payable	303,867	300,436
Accrued expenses	<u>5,660</u>	<u>22,973</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 692,707</u>	<u>\$ 696,064</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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 the following categories/components:

*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:*

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center. There were no nonexpendable restricted net assets as of June 30, 2010 and 2009.

Expendable – Expendable 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 expendable restricted net assets as of June 30, 2010 and 2009.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

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

*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 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.

**BELMOND COMMUNITY HOSPITAL**  
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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.

*Supplies*

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

*Capital Assets*

Capital asset 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, 2010 and 2009, 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, 2010 and 2009.

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*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.

*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 \$50,511 and \$52,285 for advertising costs for the years ended June 30, 2010 and 2009, 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.

**BELMOND COMMUNITY HOSPITAL**  
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**NOTES TO FINANCIAL STATEMENTS**  
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*Reclassifications*

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

*Other Significant Accounting Policies*

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

**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 \$114,197 and \$54,195 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$69,000 and \$32,000, 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, 2009.

**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, 2007.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 54% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2010, and 55% and 5%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Medical Center may incur a liability for a claims overpayment at a future date. The Medical Center is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Medical Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Medical Center and CMS.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 15,802,823</u>	<u>\$ 15,262,018</u>
Contractual adjustments:		
Medicare	(4,135,646)	(3,735,913)
Medicaid	(297,367)	(228,382)
Blue Cross	(764,515)	(823,670)
Other	<u>(410,835)</u>	<u>(470,770)</u>
Total contractual adjustments	<u>(5,608,363)</u>	<u>(5,258,735)</u>
Net patient service revenue	<b>10,194,460</b>	10,003,283
Provision for bad debts	<u>(339,567)</u>	<u>(560,498)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,854,893</u>	<u>\$ 9,442,785</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 4 – CASH AND DEPOSITS**

The Medical Center’s deposits in banks at June 30, 2010 and 2009, 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, 2010 and 2009, the Medical Center’s carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 230,518	\$ 368,444
Repurchase agreement invested in U.S. government bonds and securities	<u>517,185</u>	<u>682,469</u>
Total deposits	<u>\$ 747,703</u>	<u>\$ 1,050,913</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 684,585	\$ 993,819
Assets limited as to use	<u>63,118</u>	<u>57,094</u>
Total deposits	<u>\$ 747,703</u>	<u>\$ 1,050,913</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, 2010 AND 2009**

**NOTE 5 – CAPITAL ASSETS**

Summaries of capital assets at June 30, 2010 and 2009, are as follows:

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
<b>Capital assets</b>					
Land and land improvements	\$ 242,847	\$ -	\$ -	\$ -	\$ 242,847
Building	3,391,352	24,012	(78,213)	203,835	3,540,986
Fixed equipment	162,789	-	-	-	162,789
Major movable equipment	2,503,044	90,960	(112,681)	-	2,481,323
Construction in progress	1,274,427	1,397,228	-	(203,835)	2,467,820
<b>Total</b>	<b>7,574,459</b>	<b>\$ 1,512,200</b>	<b>\$ (190,894)</b>	<b>\$ -</b>	<b>8,895,765</b>
<b>Accumulated depreciation</b>					
Land improvements	27,978	\$ 6,143	\$ -	\$ -	34,121
Building	2,248,394	139,719	(71,386)	-	2,316,727
Fixed equipment	62,108	10,947	-	-	73,055
Major movable equipment	1,357,770	312,190	(108,619)	-	1,561,341
<b>Total</b>	<b>3,696,250</b>	<b>\$ 468,999</b>	<b>\$ (180,005)</b>	<b>\$ -</b>	<b>3,985,244</b>
<b>Capital assets, net</b>	<b>\$ 3,878,209</b>				<b>\$ 4,910,521</b>
	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
<b>Capital assets</b>					
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
<b>Total</b>	<b>6,255,369</b>	<b>\$ 1,898,422</b>	<b>\$ (579,332)</b>	<b>\$ -</b>	<b>7,574,459</b>
<b>Accumulated depreciation</b>					
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
<b>Total</b>	<b>3,800,445</b>	<b>\$ 415,133</b>	<b>\$ (519,328)</b>	<b>\$ -</b>	<b>3,696,250</b>
<b>Capital assets, net</b>	<b>\$ 2,454,924</b>				<b>\$ 3,878,209</b>

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**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

Construction in progress at June 30, 2010, consists of costs related to the major building remodel and addition project which included construction management, architectural fees, and financing expenses. The project is expected to be completed during fiscal year 2012, and the project has been financed through local and United States Department of Agriculture financing. The estimated total cost of the project is \$24,500,000.

**NOTE 6 – LONG-TERM DEBT**

A schedule of changes in long-term debt at June 30, 2010 and 2009, is as follows:

	Balance June 30, 2009	Additions	Payments (Amortization)	Balance June 30, 2010	Amounts Due Within One Year
4.50% note payable, due in monthly installments through February 2012, secured by equipment	\$ 234,289	-	\$ (86,996)	\$ 147,293	\$ 91,100
5.15% note payable, due in monthly installments through October 2012, secured by equipment	48,226	-	(13,616)	34,610	14,367
4.00% note payable, due in monthly installments through November 2013, secured by equipment	267,058	-	(56,146)	210,912	58,777
4.00% note payable, due in monthly installments through January 2014, secured by equipment	288,118	261,000	(114,887)	434,231	117,671
3.00% note payable, due in monthly installments through June 2019, secured by irrevocable letter of credit	150,000	-	(13,060)	136,940	13,458
3.00% note payable, due in monthly installments through June 2019, secured by irrevocable letter of credit	150,000	-	(13,060)	136,940	13,458
3.93% note payable, due in one installment due on October 2010, secured by equipment	-	500,000	-	500,000	500,000
Total long-term debt	<u>\$ 1,137,691</u>	<u>\$ 761,000</u>	<u>\$ (297,765)</u>	<u>1,600,926</u>	<u>\$ 808,831</u>
Less current maturities				<u>(808,831)</u>	
Long-term debt, less current maturities				<u>\$ 792,095</u>	

(continued on next page)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	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>	1,137,691	<u>\$ 374,831</u>
Less current maturities				<u>(374,831)</u>	
Long-term debt, less current maturities				<u>\$ 762,860</u>	

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**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 808,831	\$ 41,794	\$ 850,625
2012	282,514	24,321	306,835
2013	224,536	14,584	239,120
2014	123,827	6,942	130,769
2015	30,342	5,000	35,342
2016-2020	<u>130,876</u>	<u>8,863</u>	<u>139,739</u>
Total	<u>\$ 1,600,926</u>	<u>\$ 101,504</u>	<u>\$ 1,702,430</u>

The Medical Center 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 down during 2009. As of June 30, 2010, no amounts were drawn on the letters of credit.

**NOTE 7 – 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, 2010 and 2009, for all operating leases was \$128,010 and \$128,157, respectively.

Minimum future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 264,998
2012	195,915
2013	191,636
2014	178,800
2015	178,800
Thereafter	<u>238,400</u>
Total minimum lease payments	<u>\$ 1,248,549</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 8 – 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 4.30% of their annual covered salary, and the Medical Center is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10 % and 3.90% of their annual covered salary, and the Medical Center was required to contribute 6.35% and 6.05 % of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$216,874, \$184,617, and \$162,490, respectively, equal to the required contributions for each year.

**NOTE 9 – 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 \$1,963,308 and \$1,256,069 for the years ended June 30, 2010 and 2009, respectively.

*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, 2010 and 2009, were \$181,561 and \$166,605, respectively.

*Due to Affiliated Organization*

As of June 30, 2010 and 2009, the Medical Center's records reflect a due to the Wright Medical Center of \$157,043 and \$262,747, respectively, for the various services and distributions related to these agreements and is included in accounts payable on the balance sheets.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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 did not make any contributions to the Medical Center during the fiscal year ended June 30, 2010. The Foundation made contributions to the Medical Center of \$30,000 for fiscal year ended June 30, 2009.

*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, 2010 and 2009, the Auxiliary made contributions to the Medical Center of \$4,800 and \$5,598, respectively.

**NOTE 10 – 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.

*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.

*Health Care Legislation and Regulation*

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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 11 – 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 12 – 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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	47%	36%
Medicaid	2%	9%
Commercial insurance	25%	31%
Other third-party payors and patients	26%	24%
	<u>100%</u>	<u>100%</u>

**NOTE 13 – SUBSEQUENT EVENTS**

On August 18, 2010, the Medical Center signed a loan agreement by and among the City of Belmond, Belmond Community Hospital, d/b/a Belmond Medical Center, and the United States of America acting through the United States Department of Agriculture – Rural Development. The loan agreement, Revenue Bond Series 2010A, is in the aggregate principal amount not to exceed \$21,600,000, interest rate of 4%, maturing on August 18, 2050. On August 18, 2010, the Medical Center signed two other loan agreements by and among the City of Belmond, Belmond Community Hospital, d/b/a Belmond Medical Center, and First State Bank. The first loan agreement, Revenue Bond Series 2010B, is in the aggregate principal amount not to exceed \$2,160,000, variable interest rate, maturing on August 1, 2040. The second loan agreement, Revenue Bond Series 2010C, is in the aggregate principal amount not to exceed \$240,000, variable interest rate, maturing on August 1, 2040. In addition, the Revenue Bond Series 2010B is guaranteed by the United States Department of Agriculture.

On August 19, 2010, the Medical Center repaid the note payable of \$500,000 for pre-construction expenses for the addition and remodeling project due in October, 2010, with the above noted revenue bonds.

The Medical Center has evaluated subsequent events through October 18, 2010, the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2010 and 2009

## Belmond Medical Center

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET TO ACTUAL (ACCRUAL BASIS)**  
**YEAR ENDED JUNE 30, 2010**

	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Net patient service revenue	\$ 9,854,893	\$ 10,506,488	\$ (651,595)
Other operating revenues	55,508	82,484	(26,976)
Total operating revenues	<u>9,910,401</u>	<u>10,588,972</u>	<u>(678,571)</u>
Operating expenses	(9,718,919)	(10,475,404)	756,485
Net nonoperating revenues	37,581	7,500	30,081
Capital contributions and grants	<u>5,800</u>	<u>46,000</u>	<u>(40,200)</u>
Increase in Net Assets	<u>\$ 234,863</u>	<u>\$ 167,068</u>	<u>\$ 67,795</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**JUNE 30, 2010**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Medical Center preparing a budget on the accrual basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2010.

For the year ended June 30, 2010, the Medical Center's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2010 and 2009

## Belmond Medical Center



**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 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. Other 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 34 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 18, 2010

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	TOTAL	
	2010	2009
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 413,755	\$ 450,092
Swing-bed	225,365	367,064
Subtotal	<u>639,120</u>	<u>817,156</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,036,437	959,683
Anesthesiology	922,242	754,221
Radiology	2,532,626	2,143,366
Nuclear medicine	514,096	533,202
Laboratory	2,425,621	2,275,151
Respiratory therapy	1,099,637	1,346,413
Electroencephalography	325,432	290,507
Occupational therapy	186,797	161,194
Physical therapy	669,325	632,035
Enterstomal therapy	3,521	1,128
Cardiac rehab	135,576	100,464
Speech therapy	20,235	30,993
Medical and surgical supplies	865,561	983,144
Pharmacy	1,353,599	1,534,172
Clinic	1,683,259	1,638,293
Emergency services	1,120,235	807,670
Diabetic	9,114	834
Ambulance	337,936	305,331
Fitness center	36,651	1,256
Subtotal	<u>15,277,900</u>	<u>14,499,057</u>
Total	15,917,020	15,316,213
Charity care	<u>(114,197)</u>	<u>(54,195)</u>
Total patient service revenue	<u>15,802,823</u>	<u>15,262,018</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(4,135,646)	(3,735,913)
Medicaid	(297,367)	(228,382)
Blue Cross	(764,515)	(823,670)
Other	<u>(410,835)</u>	<u>(470,770)</u>
Total contractual adjustments	<u>(5,608,363)</u>	<u>(5,258,735)</u>
NET PATIENT SERVICE REVENUE	10,194,460	10,003,283
PROVISION FOR BAD DEBTS	<u>(339,567)</u>	<u>(560,498)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 9,854,893</u>	<u>\$ 9,442,785</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 413,755	\$ 450,092	\$ -	\$ -
<u>225,365</u>	<u>367,064</u>	<u>-</u>	<u>-</u>
<b>639,120</b>	<b>817,156</b>	<b>-</b>	<b>-</b>
86,748	77,802	949,689	881,881
92,893	49,745	829,349	704,476
209,625	248,879	2,323,001	1,894,487
3,283	-	510,813	533,202
310,115	328,824	2,115,506	1,946,327
497,834	696,684	601,803	649,729
-	-	325,432	290,507
97,026	83,910	89,771	77,284
142,992	150,648	526,333	481,387
140	-	3,381	1,128
-	-	135,576	100,464
2,451	4,958	17,784	26,035
366,421	471,950	499,140	511,194
469,844	517,271	883,755	1,016,901
138,482	164,241	1,544,777	1,474,052
-	-	1,120,235	807,670
-	-	9,114	834
1,641	788	336,295	304,543
<u>-</u>	<u>1,256</u>	<u>36,651</u>	<u>-</u>
<b>2,419,495</b>	<b>2,796,956</b>	<b>12,858,405</b>	<b>11,702,101</b>
<u>\$ 3,058,615</u>	<u>\$ 3,614,112</u>	<u>\$ 12,858,405</u>	<u>\$ 11,702,101</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Grant revenue	\$ 24,720	\$ 27,546
Rent income	13,705	11,744
Cafeteria sales	9,973	10,162
Medical records transcripts	806	680
Other	<u>6,304</u>	<u>3,542</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 55,508</u>	 <u>\$ 53,674</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 82,045	\$ 70,999
Supplies and other expenses	<u>3,323</u>	<u>3,727</u>
	<u>85,368</u>	<u>74,726</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	656,646	667,331
Supplies and other expenses	<u>57,194</u>	<u>92,665</u>
	<u>713,840</u>	<u>759,996</u>
<b>OPERATING ROOM</b>		
Salaries and wages	119,607	148,874
Supplies and other expenses	<u>242,733</u>	<u>264,553</u>
	<u>362,340</u>	<u>413,427</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>268,885</u>	<u>237,999</u>
<b>RADIOLOGY</b>		
Salaries and wages	214,242	191,336
Supplies and other expenses	<u>601,390</u>	<u>631,738</u>
	<u>815,632</u>	<u>823,074</u>
<b>NUCLEAR MEDICINE</b>		
Supplies and other expenses	<u>102,498</u>	<u>96,475</u>
<b>LABORATORY</b>		
Salaries and wages	211,458	213,358
Supplies and other expenses	<u>235,861</u>	<u>226,810</u>
	<u>447,319</u>	<u>440,168</u>
<b>RESPIRATORY THERAPY</b>		
Supplies and other expenses	<u>403,151</u>	<u>513,247</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	41,639	38,732
Supplies and other expenses	<u>40,982</u>	<u>39,787</u>
	<u>82,621</u>	<u>78,519</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	169,021	159,181
Supplies and other expenses	<u>61,982</u>	<u>103,112</u>
	<u>231,003</u>	<u>262,293</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>4,706</u>	<u>13,889</u>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	\$ 70,090	\$ 65,475
Supplies and other expenses	4,020	3,870
	<u>74,110</u>	<u>69,345</u>
<b>MEDICAL SUPPLIES CHARGED TO PATIENTS</b>		
Supplies and other expenses	<u>145,572</u>	<u>152,808</u>
<b>DRUGS CHARGED TO PATIENTS</b>		
Salaries and wages	25,132	22,347
Supplies and other expenses	205,963	195,561
	<u>231,095</u>	<u>217,908</u>
<b>CLINIC</b>		
Salaries and wages	308,723	291,069
Supplies and other expenses	848,369	629,527
	<u>1,157,092</u>	<u>920,596</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	95,044	53,166
Supplies and other expenses	531,482	486,000
	<u>626,526</u>	<u>539,166</u>
<b>DIABETIC</b>		
Supplies and other expenses	<u>7,696</u>	<u>27</u>
<b>AMBULANCE</b>		
Salaries and wages	120,985	108,430
Supplies and other expenses	39,532	33,973
	<u>160,517</u>	<u>142,403</u>
<b>FITNESS CENTER</b>		
Salaries and wages	54,223	594
Supplies and other expenses	27,672	22,742
	<u>81,895</u>	<u>23,336</u>
<b>ELECTROENCEPHALOGRAPHY</b>		
Supplies and other expenses	<u>208,589</u>	<u>185,064</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	198,064	182,472
Supplies and other expenses	65,709	66,088
	<u>263,773</u>	<u>248,560</u>

(continued)

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
DIETARY		
Salaries and wages	\$ 123,092	\$ 119,618
Supplies and other expenses	<u>61,285</u>	<u>72,485</u>
	<u>184,377</u>	<u>192,103</u>
OPERATION OF PLANT		
Salaries and wages	117,244	102,712
Supplies and other expenses	<u>180,260</u>	<u>153,480</u>
	<u>297,504</u>	<u>256,192</u>
HOUSEKEEPING		
Salaries and wages	52,067	49,318
Supplies and other expenses	<u>15,718</u>	<u>17,069</u>
	<u>67,785</u>	<u>66,387</u>
LAUNDRY AND LINEN		
Supplies and other expenses	<u>21,712</u>	<u>22,658</u>
BUSINESS OFFICE		
Salaries and wages	243,991	224,229
Supplies and other expenses	<u>212,906</u>	<u>216,492</u>
	<u>456,897</u>	<u>440,721</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	272,488	210,936
Supplies and other expenses	<u>517,345</u>	<u>475,443</u>
	<u>789,833</u>	<u>686,379</u>
UNASSIGNED EXPENSES		
Depreciation	468,998	415,133
Employee benefits	<u>957,585</u>	<u>834,884</u>
	<u>1,426,583</u>	<u>1,250,017</u>
TOTAL OPERATING EXPENSES	<u>\$ 9,718,919</u>	<u>\$ 9,127,483</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND**  
**COLLECTION STATISTICS**  
**JUNE 30, 2010 AND 2009**

ANALYSIS OF AGING	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,303,315	48.43%	\$ 960,952	31.94%
31 to 60 days	491,765	18.27%	682,459	22.68%
61 to 90 days	295,850	10.99%	360,313	11.97%
91 days and over	600,398	22.31%	1,005,223	33.41%
	<u>2,691,328</u>	<u>100.00%</u>	<u>3,008,947</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	352,411		509,426	
Allowance for contractual adjustments	890,049		877,582	
Net	<u>\$ 1,448,868</u>		<u>\$ 1,621,939</u>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Beginning balance	\$ 509,426	\$ 364,643
Add:		
Provision for bad debts	339,567	560,498
Recoveries previously written off	171,797	49,049
	<u>511,364</u>	<u>609,547</u>
Less:		
Accounts written off	(668,379)	(464,764)
Ending balance	<u>\$ 352,411</u>	<u>\$ 509,426</u>

**COLLECTION STATISTICS**

Net accounts receivable - patients	\$ 1,448,868	\$ 1,621,939
Number of days charges outstanding (1)	54	63
Uncollectible accounts (2)	\$ 476,062	\$ 618,317
Percentage of uncollectible accounts to total charges	3.0%	4.0%

(1) Based on average daily net patient service revenue for April, May, and June

(2) Includes provision for bad debts, charity care, and collection fees

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
SUPPLIES		
General	\$ 48,431	\$ 44,206
Pharmacy	48,400	45,443
Dietary	6,759	6,864
Other	<u>14,717</u>	<u>17,593</u>
Total supplies	<u>\$ 118,307</u>	<u>\$ 114,106</u>
PREPAID EXPENSE		
ER coverage	\$ 82,288	\$ -
Insurance	20,886	12,206
Other	<u>55,801</u>	<u>54,670</u>
Total prepaid expense	<u>\$ 158,975</u>	<u>\$ 66,876</u>

**BELMOND COMMUNITY HOSPITAL**  
**d/b/a BELMOND MEDICAL CENTER**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PATIENT DAYS</b>		
Acute	<b>550</b>	617
Swing-bed and intermediate	<b>638</b>	1,032
<b>ADMISSIONS</b>		
Acute	<b>218</b>	245
Swing-bed and intermediate	<b>67</b>	108
<b>DISCHARGES</b>		
Acute	<b>220</b>	244
Swing-bed and intermediate	<b>68</b>	108
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>2.50</b>	2.53
Swing-bed and intermediate	<b>9.38</b>	9.56
<b>BEDS</b>	<b>22</b>	22
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 22 beds	<b>6.8%</b>	7.7%
Swing-bed and intermediate, based on 22 beds	<b>7.9%</b>	12.9%



**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 sheets of the primary government of Belmond Community Hospital, d/b/a Belmond Medical Center, as of June 30, 2010 and 2009, 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 18, 2010. 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 an 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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, 2010, 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.

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  
October 18, 2010

**BELMOND COMMUNITY HOSPITAL  
d/b/a BELMOND MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-10      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, 2010**

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

I-B-10      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, 2010**

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

II-A-10 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.

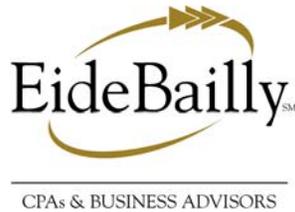
II-B-10 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-C-10 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	\$34,353 for services

II-D-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-E-10 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.



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

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We have audited the financial statements of Belmond Community Hospital, d/b/a Belmond Medical Center (Medical Center), for the year ended June 30, 2010. 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 18, 2010. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *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, 2010. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

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, the 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. No misstatements were noted during the audit.

*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 18, 2010.

*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 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 18, 2010

xc: Ms. Nancy Gabrielson, Administrator/CEO



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

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In planning and performing our audit of the financial statements of Belmond Community Hospital, d/b/a Belmond Medical Center (Medical Center), as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Medical Center's internal control to be significant deficiencies:

#### Preparation of Financial Statements

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). Belmond Community Hospital, d/b/a Belmond Medical Center, does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement 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. 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. 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.

#### Segregation of Duties

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

This communication 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 others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dubuque, Iowa  
October 18, 2010