



Financial Statements  
June 30, 2012 and 2011

**Belmond Community Hospital  
d/b/a Belmond Medical Center**

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Belmond Community Hospital  
d/b/a Belmond Medical Center  
Board of Trustees and Medical Center Officials

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| <u>Name</u>      | <u>Title</u>                          | <u>Term Expires</u> |
|------------------|---------------------------------------|---------------------|
|                  | <u>Board of Trustees</u>              |                     |
| Frank Beminio    | Chairperson                           | December 2013       |
| Tom Christianson | Vice-Chairperson                      | December 2015       |
| Steve Been       | Secretary                             | December 2015       |
| Terri Havens     | Member                                | December 2013       |
| Brad Robson      | Member                                | December 2015       |
|                  | <u>Medical Center Officials</u>       |                     |
| Nancy Gabrielson | Administrator/Chief Executive Officer |                     |
| Greg Polzin      | Chief Financial Officer               |                     |



## Independent Auditor's Report

To 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 (Medical Center), as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 Community Hospital, d/b/a Belmond Medical Center, do not purport to, and do not, present fairly the financial position of Belmond Medical Center, as of June 30, 2012 and 2011, 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 25, 2012, on our consideration of the Medical Center's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 30 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in black ink that reads "Eide Sallee LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
October 25, 2012

This discussion and analysis of the financial performance of Belmond Medical Center provides an overall review of the Medical Center's financial activities and balances as of and for the years ended June 30, 2012, 2011, and 2010. The intent of this discussion is to provide further information on the Medical Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Medical Center's financial statements, including the notes thereto to enhance their understanding of the Medical Center's financial status.

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

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Medical Center's finances.

The Medical Center's financial statements offer short and long term information about its activities. The balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### **Financial Highlights**

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Medical Center and the changes in them. The Medical Center's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2012, indicates total assets of \$28,209,198, total liabilities of \$23,549,820, and net assets of \$4,659,378.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient service revenue of \$13,118,965 increased 10.2% over the previous fiscal year, total operating expenses of \$13,540,308 increased 13.4% resulting in a loss from operations of \$254,853. A net nonoperating gain of \$21,882 brings the revenues less than expenses to \$232,971.

- The Medical Center's current assets exceeded its current liabilities by \$613,392 at June 30, 2012, providing a 1.2 current ratio.
- The Medical Center's capital assets increased by \$10,008,537 to \$24,428,442.
- The Medical Center's long-term debt increased by \$10,417,110 to \$20,511,712.
- The Medical Center recorded a decrease in net assets for fiscal year ending June 30, 2012, amounting to \$222,923.

### **Organization Highlights**

The organization continued to make many positive changes over this last fiscal year, including:

- Finished construction of a new acute care patient floor, surgery, and ER addition
- Purchased equipment for the new addition including two state-of-the-art operating rooms, surgical and central sterile equipment, anesthesia equipment, Omnicell machines, datascopes, hospital beds, bariatric lifts, ECG machine, blanket warmer, pharmacy equipment, emergency room cots, therapy equipment and many furnishings
- Invested in new technology including a new nurse call system, telephone system and card readers
- Started a task force to meet stage one of meaningful use
- Purchased a new electronic medical record software program and related hardware
- Purchased a PACS system that will integrate with the new electronic medical record system
- Purchased a policy manager software program which will allow policies to be updated and maintained more efficiently
- Added a new physician to our clinic
- Purchased a new dictation system
- Ranked as one of the top 50 hospitals (the only hospital from Iowa) with the best patient ratings based on the Hospital Consumer Assessment of Healthcare Providers and Systems survey
- Joined management teams with its managing hospital

**Condensed Financial Statements**

*Balance Sheets*

|                                                 | <u>June 30,</u><br><u>2012</u> | <u>June 30,</u><br><u>2011</u> | <u>June 30,</u><br><u>2010</u> |
|-------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                                   |                                |                                |                                |
| Current Assets                                  | \$ 3,651,500                   | \$ 3,807,145                   | \$ 2,660,468                   |
| Assets Limited as to Use                        | 54,515                         | 43,292                         | 63,118                         |
| Capital Assets, Net                             | 24,428,442                     | 14,419,905                     | 4,910,521                      |
| Other Assets                                    | <u>74,741</u>                  | <u>12,808</u>                  | <u>1,682</u>                   |
| Total assets                                    | <u>\$ 28,209,198</u>           | <u>\$ 18,283,150</u>           | <u>\$ 7,635,789</u>            |
| <b>Liabilities and Net Assets</b>               |                                |                                |                                |
| Current Liabilities                             | \$ 3,038,108                   | \$ 3,306,247                   | \$ 2,199,048                   |
| Long-Term Liabilities                           | <u>20,511,712</u>              | <u>10,094,602</u>              | <u>792,095</u>                 |
| Total liabilities                               | <u>23,549,820</u>              | <u>13,400,849</u>              | <u>2,991,143</u>               |
| <b>Net Assets</b>                               |                                |                                |                                |
| Invested in capital assets, net of related debt | 3,254,539                      | 4,095,779                      | 3,309,595                      |
| Unrestricted                                    | <u>1,404,839</u>               | <u>786,522</u>                 | <u>1,335,051</u>               |
| Total net assets                                | <u>4,659,378</u>               | <u>4,882,301</u>               | <u>4,644,646</u>               |
| Total liabilities and net assets                | <u>\$ 28,209,198</u>           | <u>\$ 18,283,150</u>           | <u>\$ 7,635,789</u>            |

*Statements of Revenues, Expenses, and Changes in Net Assets*

|                                                                 | Year Ended June 30, |                     |                     |
|-----------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                 | 2012                | 2011                | 2010                |
| Operating Revenues                                              |                     |                     |                     |
| Net patient service revenue (net of provision<br>for bad debts) | \$ 13,118,965       | \$ 11,903,778       | \$ 9,854,893        |
| Other operating revenues                                        | 166,490             | 62,073              | 55,508              |
| Total Operating Revenues                                        | <u>13,285,455</u>   | <u>11,965,851</u>   | <u>9,910,401</u>    |
| Operating Expenses                                              |                     |                     |                     |
| Salaries, wages, and employee benefits                          | 5,099,590           | 4,678,662           | 4,133,386           |
| Supplies and other expenses                                     | 7,733,916           | 6,686,447           | 5,116,535           |
| Depreciation and amortization                                   | 706,802             | 572,582             | 468,998             |
| Total Operating Expenses                                        | <u>13,540,308</u>   | <u>11,937,691</u>   | <u>9,718,919</u>    |
| Operating Income (Loss)                                         | <u>(254,853)</u>    | <u>28,160</u>       | <u>191,482</u>      |
| Nonoperating Revenues (Expenses)                                |                     |                     |                     |
| Investment income                                               | 2,240               | 2,667               | 5,767               |
| Noncapital grants and contributions received                    | 89,788              | 61,754              | 84,172              |
| Interest expense                                                | (83,179)            | (27,833)            | (48,360)            |
| Build America Bond interest subsidy                             | 5,180               | -                   | -                   |
| Other                                                           | 7,853               | 5,532               | (3,998)             |
| Net Nonoperating Revenues                                       | <u>21,882</u>       | <u>42,120</u>       | <u>37,581</u>       |
| Revenues in Excess of (Less Than) Expenses                      | (232,971)           | 70,280              | 229,063             |
| Capital Grants and Contributions                                | <u>10,048</u>       | <u>167,375</u>      | <u>5,800</u>        |
| Increase (Decrease) in Net Assets                               | (222,923)           | 237,655             | 234,863             |
| Net Assets, Beginning of Year                                   | <u>4,882,301</u>    | <u>4,644,646</u>    | <u>4,409,783</u>    |
| Net Assets, End of Year                                         | <u>\$ 4,659,378</u> | <u>\$ 4,882,301</u> | <u>\$ 4,644,646</u> |

### **Capital Assets**

Belmond Medical Center constructed a new acute care patient floor, surgery, and ER addition, and is in the process of renovating current space for ancillary and clinic care. The new construction was completed June 1, 2012. The renovation of the existing space is expected to be completed in December of 2012. The Medical Center's construction plans are part of the strategic plan's focus on constructing new acute care and operating room space along with major renovations to support services, clinic, and outpatient services space.

### **Long-Term Debt**

At year end, Belmond Medical Center had \$21,173,903 in short-term and long-term debt. The debt was incurred to purchase technology and medical equipment, and to finance the building and renovation projects.

### **Economic and Other Factors and Next Year's Budget**

The Medical Center's Board and management considered many factors when preparing the fiscal year 2013 budget. Of primary consideration in the 2013 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Technology advances
- Medical Staff issues
- Increase in costs for new building addition and renovation
- Initiatives to meet stage one of meaningful use

### **Summary**

The Medical Center's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 120 employees provides to every person they serve. We would also like to thank each member of the Medical Center's Medical Staff for their dedication and support provided.

**Contacting the Medical Center's Finance Department**

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Belmond Medical Center  
Attn: Chief Financial Officer  
403 1<sup>st</sup> Street SE  
Belmond, IA 50421

|                                                                                                    | <u>2012</u>          | <u>2011</u>          |
|----------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Assets                                                                                             |                      |                      |
| Current Assets                                                                                     |                      |                      |
| Cash and cash equivalents - Note 3                                                                 | \$ 857,593           | \$ 1,011,127         |
| Receivables                                                                                        |                      |                      |
| Patient, net of allowance for uncollectible accounts<br>of \$390,000 in 2012 and \$387,000 in 2011 | 1,909,130            | 1,986,714            |
| Estimated third-party payor settlements                                                            | 323,000              | 409,000              |
| Other                                                                                              | 174,104              | 78,418               |
| Supplies                                                                                           | 148,763              | 137,667              |
| Prepaid expenses                                                                                   | 238,910              | 184,219              |
| Total current assets                                                                               | <u>3,651,500</u>     | <u>3,807,145</u>     |
| Assets Limited as to Use - Note 3                                                                  |                      |                      |
| Internally designated for ambulance                                                                | <u>54,515</u>        | <u>43,292</u>        |
| Capital Assets - Note 4                                                                            |                      |                      |
| Capital assets not being depreciated                                                               | 2,260,382            | 11,795,685           |
| Depreciable capital assets, net of accumulated depreciation                                        | <u>22,168,060</u>    | <u>2,624,220</u>     |
| Total capital assets, net                                                                          | <u>24,428,442</u>    | <u>14,419,905</u>    |
| Other Assets                                                                                       |                      |                      |
| Notes receivable                                                                                   | 9,311                | 12,808               |
| Deferred financing costs, net of accumulated amortization<br>of \$145 in 2012                      | <u>65,430</u>        | <u>-</u>             |
| Total other assets                                                                                 | <u>74,741</u>        | <u>12,808</u>        |
| Total assets                                                                                       | <u>\$ 28,209,198</u> | <u>\$ 18,283,150</u> |

See Notes to Financial Statements

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Balance Sheets  
June 30, 2012 and 2011

|                                                  | 2012          | 2011          |
|--------------------------------------------------|---------------|---------------|
| Liabilities and Net Assets                       |               |               |
| Current Liabilities                              |               |               |
| Current maturities of long-term debt - Note 6    | \$ 662,191    | \$ 229,524    |
| Accounts payable                                 |               |               |
| Trade                                            | 261,943       | 394,389       |
| Construction                                     | 913,698       | 1,527,842     |
| Affiliated organization - Note 8                 | 266,469       | 706,887       |
| Accrued expenses                                 |               |               |
| Salaries and wages                               | 157,177       | 42,373        |
| Vacation                                         | 173,316       | 124,766       |
| Payroll taxes and employee benefits              | 74,387        | 114,840       |
| Interest                                         | 528,927       | 165,626       |
| Total current liabilities                        | 3,038,108     | 3,306,247     |
| Long-Term Debt, Less Current Maturities - Note 6 | 20,511,712    | 10,094,602    |
| Total liabilities                                | 23,549,820    | 13,400,849    |
| Net Assets                                       |               |               |
| Invested in capital assets, net of related debt  | 3,254,539     | 4,095,779     |
| Unrestricted                                     | 1,404,839     | 786,522       |
| Total net assets                                 | 4,659,378     | 4,882,301     |
| Total liabilities and net assets                 | \$ 28,209,198 | \$ 18,283,150 |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2012 and 2011

|                                                                                                                     | 2012          | 2011          |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Operating Revenues                                                                                                  |               |               |
| Net patient service revenue (net of provision for bad debts<br>of \$496,683 in 2012 and \$356,938 in 2011) - Note 2 | \$ 13,118,965 | \$ 11,903,778 |
| Other operating revenues                                                                                            | 166,490       | 62,073        |
| Total Operating Revenues                                                                                            | 13,285,455    | 11,965,851    |
| Operating Expenses                                                                                                  |               |               |
| Salaries and wages                                                                                                  | 3,859,066     | 3,545,758     |
| Employee benefits                                                                                                   | 1,240,524     | 1,132,904     |
| Supplies and other expenses                                                                                         | 7,733,916     | 6,686,447     |
| Depreciation and amortization                                                                                       | 706,802       | 572,582       |
| Total Operating Expenses                                                                                            | 13,540,308    | 11,937,691    |
| Operating Income (Loss)                                                                                             | (254,853)     | 28,160        |
| Nonoperating Revenues (Expenses)                                                                                    |               |               |
| Investment income                                                                                                   | 2,240         | 2,667         |
| Noncapital grants and contributions received                                                                        | 89,788        | 61,754        |
| Interest expense                                                                                                    | (83,179)      | (27,833)      |
| Build America Bond interest subsidy                                                                                 | 5,180         | -             |
| Other                                                                                                               | 7,853         | 5,532         |
| Net Nonoperating Revenues                                                                                           | 21,882        | 42,120        |
| Revenues in Excess of (Less Than) Expenses                                                                          | (232,971)     | 70,280        |
| Capital Grants and Contributions                                                                                    | 10,048        | 167,375       |
| Increase (Decrease) in Net Assets                                                                                   | (222,923)     | 237,655       |
| Net Assets, Beginning of Year                                                                                       | 4,882,301     | 4,644,646     |
| Net Assets, End of Year                                                                                             | \$ 4,659,378  | \$ 4,882,301  |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

|                                                                          | 2012          | 2011          |
|--------------------------------------------------------------------------|---------------|---------------|
| Cash Flows from Operating Activities                                     |               |               |
| Receipts of patient service revenue                                      | \$ 13,282,549 | \$ 11,186,932 |
| Payments of salaries and wages                                           | (3,744,262)   | (3,665,681)   |
| Payments of supplies and other expenses                                  | (9,604,994)   | (7,298,408)   |
| Other receipts and payments, net                                         | 83,073        | 38,049        |
| Net Cash provided by Operating Activities                                | 16,366        | 260,892       |
| Cash Flows from Noncapital Financing Activities                          |               |               |
| Noncapital grants and contributions received                             | 89,788        | 61,754        |
| Other income                                                             | 8,093         | 1,919         |
| Net Cash provided by Noncapital Financing Activities                     | 97,881        | 63,673        |
| Cash Flows from Capital and Related Financing Activities                 |               |               |
| Purchase of capital assets                                               | (10,135,260)  | (9,709,740)   |
| Proceeds from sale of capital assets                                     | -             | 38,400        |
| Payment of deferred financing costs                                      | (65,430)      | -             |
| Interest payments on long-term debt                                      | (300,197)     | (30,033)      |
| Proceeds from issuance of long-term debt                                 | 11,490,345    | 10,089,146    |
| Principal payments on long-term debt                                     | (640,568)     | (1,608,474)   |
| Build America Bond interest subsidy                                      | (3,592)       | (45,787)      |
| Capital grants and contributions                                         | 10,048        | 167,375       |
| Increase (decrease) in construction payable                              | (614,144)     | 1,078,597     |
| Net Cash provided by (used for) Capital and Related Financing Activities | (258,798)     | (20,516)      |
| Cash Flows from Investing Activities                                     |               |               |
| Proceeds from the sale of assets limited as to use                       | -             | 19,889        |
| Purchase of assets limited as to use                                     | (11,223)      | (63)          |
| Investment income                                                        | 2,240         | 2,667         |
| Net Cash provided by (used for) Investing Activities                     | (8,983)       | 22,493        |
| Net Increase (Decrease) in Cash and Cash Equivalents                     | (153,534)     | 326,542       |
| Cash and Cash Equivalents at Beginning of Year                           | 1,011,127     | 684,585       |
| Cash and Cash Equivalents at End of Year                                 | \$ 857,593    | \$ 1,011,127  |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

|                                                                                                                      | 2012         | 2011         |
|----------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Reconciliation of Operating Income (Loss) to Net                                                                     |              |              |
| Cash provided by Operating Activities                                                                                |              |              |
| Operating income (loss)                                                                                              | \$ (254,853) | \$ 28,160    |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities                        |              |              |
| Depreciation and amortization                                                                                        | 706,802      | 572,582      |
| Provision for bad debts                                                                                              | 496,683      | 356,938      |
| Changes in assets and liabilities                                                                                    |              |              |
| Patient receivables                                                                                                  | (419,099)    | (894,784)    |
| Estimated third-party payor settlements                                                                              | 86,000       | (179,000)    |
| Other receivables                                                                                                    | (86,914)     | (12,898)     |
| Supplies                                                                                                             | (11,096)     | (19,360)     |
| Prepaid expenses                                                                                                     | (54,691)     | (25,244)     |
| Notes receivable                                                                                                     | 3,497        | (11,126)     |
| Accounts payable                                                                                                     | (572,864)    | 496,083      |
| Accrued expenses                                                                                                     | 122,901      | (50,459)     |
| Net Cash provided by Operating Activities                                                                            | \$ 16,366    | \$ 260,892   |
| Supplemental Noncash Capital and Related Financing Activity                                                          |              |              |
| The Medical Center entered into a capital lease obligation in the amount of \$242,528 for new equipment during 2011. |              |              |
| Accounts payable for construction                                                                                    | \$ 913,698   | \$ 1,527,842 |
| Supplemental Disclosure of Cash Flow Information                                                                     |              |              |
| Cash paid for interest (including amounts capitalized) in 2012 and 2011 was \$300,197 and \$30,033, respectively.    |              |              |

## Note 1 - Organization and Significant Accounting Policies

### Organization

Belmond Community Hospital, d/b/a 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, 2012 and 2011.

**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, 2012 and 2011.

**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'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 (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.

The Medical Center uses enterprise fund accounting. Revenues are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Medical Center has elected not to apply the provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity 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.

### **Supplies**

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

### **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 for other purposes.

### **Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and 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 depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. 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 |

### **Deferred Financing Costs**

Deferred financing costs are amortized over the period the related obligation is outstanding using the straight-line method.

### **Investment Income**

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

### **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 projected vacation payouts is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2012 and 2011.

### **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 transactions associated with providing health care services – the Medical Center's principal activity. Nonexchange revenues, including interest income, grants, and 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.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors 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.

### **Charity Care and Community Benefit**

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.

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 \$55,021 and \$54,736 for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011, were \$36,000 and \$34,000, 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.

### **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 \$64,653 and \$60,980 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

### **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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Reclassifications**

Reclassifications have been made to the June 30, 2011, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

### **Note 2 - 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 plus one percent 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 audited by the Medicare fiscal intermediary through the year ended June 30, 2010.

**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, 2010.

**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 62% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2012, and 57% and 4%, respectively, for the year ended June 30, 2011. 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.

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, 2012 and 2011, is as follows:

|                                                              | 2012          | 2011          |
|--------------------------------------------------------------|---------------|---------------|
| Total Patient Service Revenue                                | \$ 20,833,163 | \$ 19,089,857 |
| Contractual Adjustments:                                     |               |               |
| Medicare                                                     | (4,641,839)   | (4,492,317)   |
| Medicaid                                                     | (425,273)     | (486,568)     |
| Blue Cross                                                   | (1,641,662)   | (1,334,833)   |
| Other                                                        | (508,741)     | (515,423)     |
| Total contractual adjustments                                | (7,217,515)   | (6,829,141)   |
| Net Patient Service Revenue                                  | 13,615,648    | 12,260,716    |
| Provision for Bad Debts                                      | (496,683)     | (356,938)     |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | \$ 13,118,965 | \$ 11,903,778 |

### Note 3 - Cash and Deposits

The Medical Center's deposits in banks at June 30, 2012 and 2011, 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, 2012 and 2011, the Medical Center's carrying amounts of cash and deposits are as follows:

|                                                                          | 2012       | 2011         |
|--------------------------------------------------------------------------|------------|--------------|
| Checking and Savings Accounts                                            | \$ 571,451 | \$ 435,800   |
| Repurchase Agreement Invested in U.S. Government<br>Bonds and Securities | 340,657    | 618,619      |
| Total deposits                                                           | \$ 912,108 | \$ 1,054,419 |

Included in the following balance sheet captions:

|                           |            |              |
|---------------------------|------------|--------------|
| Cash and Cash Equivalents | \$ 857,593 | \$ 1,011,127 |
| Assets Limited as to Use  | 54,515     | 43,292       |
| Total deposits            | \$ 912,108 | \$ 1,054,419 |

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 4 - Capital Assets**

Capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

|                                             | June 30, 2011        |                      |                  |                     | June 30, 2012        |
|---------------------------------------------|----------------------|----------------------|------------------|---------------------|----------------------|
|                                             | Balance              | Additions            | Deductions       | Transfers           | Balance              |
| Capital Assets Not Being Depreciated:       |                      |                      |                  |                     |                      |
| Land                                        | \$ 136,636           | \$ -                 | \$ -             | \$ 300,022          | \$ 436,658           |
| Construction in progress                    | 11,659,049           | 10,576,374           | 65,575           | (20,346,124)        | 1,823,724            |
| Total capital assets not being depreciated  | <u>11,795,685</u>    | <u>10,576,374</u>    | <u>65,575</u>    | <u>(20,046,102)</u> | <u>2,260,382</u>     |
| Capital Assets Being Depreciated:           |                      |                      |                  |                     |                      |
| Land improvements                           | 103,212              | -                    | 4,740            | 2,268,383           | 2,366,855            |
| Buildings                                   | 3,540,786            | 24,676               | 158,990          | 4,090,330           | 7,496,802            |
| Fixed equipment                             | 162,789              | 5,861                | 33,241           | 12,945,069          | 13,080,478           |
| Major moveable equipment                    | 3,148,853            | 174,097              | 308,298          | 742,320             | 3,756,972            |
| Total capital assets being depreciated      | <u>6,955,640</u>     | <u>204,634</u>       | <u>505,269</u>   | <u>20,046,102</u>   | <u>26,701,107</u>    |
| Less Accumulated Depreciation for:          |                      |                      |                  |                     |                      |
| Land improvements                           | 37,265               | 16,004               | 4,740            | -                   | 48,529               |
| Buildings                                   | 2,446,166            | 144,953              | 160,646          | -                   | 2,430,473            |
| Fixed equipment                             | 81,650               | 78,145               | 33,242           | -                   | 126,553              |
| Major moveable equipment                    | 1,766,339            | 467,555              | 306,402          | -                   | 1,927,492            |
| Total accumulated depreciation              | <u>4,331,420</u>     | <u>706,657</u>       | <u>505,030</u>   | <u>-</u>            | <u>4,533,047</u>     |
| Total Capital Assets Being Depreciated, Net | <u>2,624,220</u>     | <u>(502,023)</u>     | <u>239</u>       | <u>20,046,102</u>   | <u>22,168,060</u>    |
| Total Capital Assets, Net                   | <u>\$ 14,419,905</u> | <u>\$ 10,074,351</u> | <u>\$ 65,814</u> | <u>\$ -</u>         | <u>\$ 24,428,442</u> |

Construction in progress at June 30, 2012, consists of costs related to a renovation and remodeling project and the implementation costs for electronic health records. The estimated completion date of the renovation and remodeling project is February 2013 and will be funded with the remaining USDA Direct Funds and Guaranteed Loans through First State Bank, along with a capital campaign contribution from the Foundation, and any remaining amounts from Medical Center operations. The total estimated remaining cost to complete the renovation and remodeling project is approximately \$3,500,000, with construction commitments of approximately \$890,000 as of June 30, 2012. The implementation costs for electronic health records are being funded through a bank note and will be capitalized in the fall of 2012. The total estimated remaining cost to complete the electronic health records is approximately \$80,000.

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|                                             | June 30, 2010       |                     |                   |                  | June 30, 2011        |
|---------------------------------------------|---------------------|---------------------|-------------------|------------------|----------------------|
|                                             | <u>Balance</u>      | <u>Additions</u>    | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u>       |
| Capital Assets Not Being Depreciated:       |                     |                     |                   |                  |                      |
| Land                                        | \$ 136,636          | \$ -                | \$ -              | \$ -             | \$ 136,636           |
| Construction in progress                    | 2,467,820           | 9,224,047           | -                 | (32,818)         | 11,659,049           |
| Total capital assets not being depreciated  | <u>2,604,456</u>    | <u>9,224,047</u>    | <u>-</u>          | <u>(32,818)</u>  | <u>11,795,685</u>    |
| Capital Assets Being Depreciated:           |                     |                     |                   |                  |                      |
| Land improvements                           | 106,211             | -                   | 2,999             | -                | 103,212              |
| Buildings                                   | 3,540,986           | -                   | 200               | -                | 3,540,786            |
| Fixed equipment                             | 162,789             | -                   | -                 | -                | 162,789              |
| Major moveable equipment                    | 2,481,323           | 941,624             | 306,912           | 32,818           | 3,148,853            |
| Total capital assets being depreciated      | <u>6,291,309</u>    | <u>941,624</u>      | <u>310,111</u>    | <u>32,818</u>    | <u>6,955,640</u>     |
| Less Accumulated Depreciation for:          |                     |                     |                   |                  |                      |
| Land improvements                           | 34,121              | 6,143               | 2,999             | -                | 37,265               |
| Buildings                                   | 2,316,727           | 134,972             | 5,533             | -                | 2,446,166            |
| Fixed equipment                             | 73,055              | 8,595               | -                 | -                | 81,650               |
| Major moveable equipment                    | 1,561,341           | 422,870             | 217,872           | -                | 1,766,339            |
| Total accumulated depreciation              | <u>3,985,244</u>    | <u>572,580</u>      | <u>226,404</u>    | <u>-</u>         | <u>4,331,420</u>     |
| Total Capital Assets Being Depreciated, Net | <u>2,306,065</u>    | <u>369,044</u>      | <u>83,707</u>     | <u>32,818</u>    | <u>2,624,220</u>     |
| Total Capital Assets, Net                   | <u>\$ 4,910,521</u> | <u>\$ 9,593,091</u> | <u>\$ 83,707</u>  | <u>\$ -</u>      | <u>\$ 14,419,905</u> |

**Note 5 - Leases**

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2012 and 2011, for all operating leases was \$109,108 and \$116,690, respectively. The capitalized leased assets consist of:

|                               | <u>2012</u>       | <u>2011</u>       |
|-------------------------------|-------------------|-------------------|
| Equipment                     | \$ 242,528        | \$ 242,528        |
| Less Accumulated Amortization | <u>(52,548)</u>   | <u>(4,042)</u>    |
|                               | <u>\$ 189,980</u> | <u>\$ 238,486</u> |

Minimum future lease payments for capital and operating leases are as follows:

| <u>Year Ending June 30,</u>                      | <u>Capital<br/>Leases</u> | <u>Operating<br/>Leases</u> |
|--------------------------------------------------|---------------------------|-----------------------------|
| 2013                                             | \$ 84,840                 | \$ 323,609                  |
| 2014                                             | 84,833                    | 323,364                     |
| 2015                                             | 7,069                     | 258,168                     |
| 2016                                             | -                         | 184,305                     |
| 2017                                             | -                         | 59,600                      |
| Total Minimum Lease Payments                     | <u>176,742</u>            | <u>\$ 1,149,046</u>         |
| Less interest                                    | <u>(5,507)</u>            |                             |
| Present Value of Minimum Lease Payments - Note 6 | <u>\$ 171,235</u>         |                             |

#### Note 6 - Long-Term Debt

A schedule of changes in long-term debt at June 30, 2012 and 2011, is as follows:

|                                                                       | <u>June 30, 2011<br/>Balance</u> | <u>Additions</u>     | <u>Payments<br/>(Amortization)</u> | <u>June 30, 2012<br/>Balance</u> | <u>Amounts<br/>Due Within<br/>One Year</u> |
|-----------------------------------------------------------------------|----------------------------------|----------------------|------------------------------------|----------------------------------|--------------------------------------------|
| Note Payable to Bank, 4.50%,<br>Due February 2012                     | \$ 56,296                        | \$ -                 | \$ (56,296)                        | \$ -                             | \$ -                                       |
| Note Payable to Bank, 5.15%,<br>Due October 2012                      | 20,277                           | -                    | (15,089)                           | 5,188                            | 5,188                                      |
| Note Payable to Bank, 4.97%<br>Due June 2015                          | 274,003                          | -                    | (86,845)                           | 187,158                          | 91,260                                     |
| Hospital Revenue Bonds,<br>Series 2010A (A)                           | 9,681,022                        | 8,354,816            | -                                  | 18,035,838                       | -                                          |
| Hospital Revenue Bonds,<br>Series 2010B/C (B)                         | 50,000                           | 1,750,912            | -                                  | 1,800,912                        | 26,188                                     |
| Capital Lease Obligation,<br>3.18%, due July 2014 -<br>Note 5         | 242,528                          | -                    | (71,293)                           | 171,235                          | 80,779                                     |
| Note Payable to Bank, 3.38%<br>Due July 2014                          | <u>-</u>                         | <u>1,384,617</u>     | <u>(411,045)</u>                   | <u>973,572</u>                   | <u>458,776</u>                             |
| Total Long-Term Debt                                                  | <u>\$ 10,324,126</u>             | <u>\$ 11,490,345</u> | <u>\$ (640,568)</u>                | 21,173,903                       | <u>\$ 662,191</u>                          |
| Less Current Maturities<br>Long-Term Debt, Less<br>Current Maturities |                                  |                      |                                    | <u>(662,191)</u>                 |                                            |
|                                                                       |                                  |                      |                                    | <u>\$ 20,511,712</u>             |                                            |

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|                                                   | June 30, 2010<br>Balance | Additions            | Payments<br>(Amortization) | June 30, 2011<br>Balance | Amounts<br>Due Within<br>One Year |
|---------------------------------------------------|--------------------------|----------------------|----------------------------|--------------------------|-----------------------------------|
| Note Payable to Bank, 4.50%,<br>Due February 2012 | \$ 147,293               | \$ -                 | \$ (90,997)                | \$ 56,296                | \$ 56,297                         |
| Note Payable to Bank, 5.15%,<br>Due October 2012  | 34,610                   | -                    | (14,333)                   | 20,277                   | 15,089                            |
| Note Payable to Bank, 4.00%                       | 210,912                  | -                    | (210,912)                  | -                        | -                                 |
| Note Payable to Bank, 4.00%                       | 434,231                  | -                    | (434,231)                  | -                        | -                                 |
| Note Payable to Bank, 3.00%                       | 136,940                  | -                    | (136,940)                  | -                        | -                                 |
| Note Payable to Bank, 3.00%                       | 136,940                  | -                    | (136,940)                  | -                        | -                                 |
| Note Payable to Bank, 3.93%                       | 500,000                  | -                    | (500,000)                  | -                        | -                                 |
| Note Payable to Bank, 4.97%<br>Due June 2015      | -                        | 358,124              | (84,121)                   | 274,003                  | 86,845                            |
| Hospital Revenue Bonds,<br>Series 2010A (A)       | -                        | 9,681,022            | -                          | 9,681,022                | -                                 |
| Hospital Revenue Bonds,<br>Series 2010B/C (B)     | -                        | 50,000               | -                          | 50,000                   | -                                 |
| Capital Lease Obligation<br>3.18%, Due July 2014  | -                        | 242,528              | -                          | 242,528                  | 71,293                            |
| Total Long-Term Debt                              | <u>\$ 1,600,926</u>      | <u>\$ 10,331,674</u> | <u>\$ (1,608,474)</u>      | 10,324,126               | <u>\$ 229,524</u>                 |
| Less Current Maturities                           |                          |                      |                            | (229,524)                |                                   |
| Long-Term Debt, Less<br>Current Maturities        |                          |                      |                            | <u>\$ 10,094,602</u>     |                                   |

(A) - On August 18, 2010, the Medical Center closed on Series 2010A Taxable Revenue Bonds, in the sum of not to exceed \$21,600,000. The Medical Center drew down \$8,355,000 of the Taxable Revenue Bonds in fiscal year 2012, and \$9,681,000 in fiscal year 2011, with the remaining \$3,564,000 to be drawn over the course of the Medical Center's addition/renovation project, up through August 18, 2013. Interest only payments at 4.00% are payable annually, starting on August 18, 2011. Principal payments are payable annually on August 18, starting on August 18, 2013, through August 18, 2050. The principal drawn through December 31, 2010, is eligible for a Build America Bond interest rebate equal to 35% of the interest expense. The Medical Center had drawn on approximately \$4,500,000 as of December 31, 2010. The bonds are collateralized by a pledge of the Medical Center's net revenues.

(B) - On August 18, 2010, the Medical Center closed on Series 2010B/C Revenue Bonds, in the sum of not to exceed \$2,400,000, comprised of Series 2010B (not to exceed \$2,160,000) and 2010C (not to exceed \$240,000). The Medical Center drew down \$1,751,000 of the Revenue Bonds in fiscal year 2012, and \$50,000 in fiscal year 2011, with the remaining \$599,000 to be drawn down over the course of the Medical Center's addition/renovation project, up through August 1, 2013. Interest only payments at 4.75% are payable monthly on the unpaid outstanding principal balance. Principal payments are payable monthly starting on August 1, 2012. On August 1, 2015, and every five years thereafter, the interest rate will be adjusted to a rate equal to the spread between the Wall Street Journal Prime Rate and the three month LIBOR plus the five-year LIBOR Swap rate; provided however, that the interest rate on this bond shall never be greater than 8.29% or increase more than 1% from the interest rate in effect on the immediately preceding interest rate adjustment date. The bonds are collateralized by a pledge of the Medical Center's net revenues.

Long-term debt maturities are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|-----------------------------|----------------------|----------------------|----------------------|
| 2013                        | \$ 662,191           | \$ 740,863           | \$ 1,403,054         |
| 2014                        | 896,423              | 819,261              | 1,715,684            |
| 2015                        | 299,938              | 795,037              | 1,094,975            |
| 2016                        | 262,997              | 784,499              | 1,047,496            |
| 2017                        | 273,826              | 773,662              | 1,047,488            |
| 2018-2022                   | 1,547,901            | 3,689,422            | 5,237,323            |
| 2023-2027                   | 1,894,369            | 3,342,722            | 5,237,091            |
| 2028-2032                   | 2,318,873            | 2,917,926            | 5,236,799            |
| 2033-2037                   | 2,839,114            | 2,397,312            | 5,236,426            |
| 2038-2042                   | 3,254,309            | 1,769,105            | 5,023,414            |
| 2043-2047                   | 3,543,717            | 1,112,407            | 4,656,124            |
| 2048-2052                   | 3,380,245            | 344,652              | 3,724,897            |
| Total                       | <u>\$ 21,173,903</u> | <u>\$ 19,486,868</u> | <u>\$ 40,660,771</u> |

A summary of interest cost and rebates on borrowed funds during the years ended June 30, 2012 and 2011 is as follows:

|                                                                                     | 2012       | 2011       |
|-------------------------------------------------------------------------------------|------------|------------|
| Interest Cost:                                                                      |            |            |
| Capitalized as part of construction project                                         | \$ 580,319 | \$ 164,485 |
| Recognized as interest expense                                                      | 83,179     | 27,833     |
| Total                                                                               | \$ 663,498 | \$ 192,318 |
| Interest Rebate:                                                                    |            |            |
| Capitalized as part of construction project<br>(Build America Bond interest rebate) | \$ 57,839  | \$ 45,787  |
| Recognized as interest subsidy                                                      | 5,180      | -          |
| Total                                                                               | \$ 63,019  | \$ 45,787  |

#### **Note 7 - Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual covered salary, and the Medical Center is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% and 4.30% of their annual covered salary, and the Medical Center was required to contribute 6.95% and 6.65 % of annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$319,000, \$254,015, and \$216,874, respectively, equal to the required contributions for each year.

#### **Note 8 - Related Organizations**

##### **Master Affiliation Agreement**

The Medical Center has a Master Affiliation Agreement with 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 \$3,814,804 and \$2,504,756 for the years ended June 30, 2012 and 2011, respectively.

### **Management Services Agreement**

The Medical Center has a contractual arrangement with Wright Medical Center 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, 2012 and 2011, were \$217,355 and \$179,760, respectively.

### **Due from and to Affiliated Organization**

As of June 30, 2012 and 2011, the Medical Center's records reflect an amount receivable from Wright Medical Center in the amount of \$81,570 and \$24,816, respectively, for various services and distributions related to these agreements and are included in other receivables on the balance sheets. As of June 30, 2012 and 2011, the Medical Center's records also reflect an amount payable to Wright Medical Center in the amount \$266,469 and \$706,887, 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 did not make any contributions to the Medical Center during the fiscal year ended June 30, 2012. The Foundation made contributions to the Medical Center of \$58,101 during the fiscal year ended June 30, 2011.

The Foundation has organized a capital campaign for the benefit of the Belmond Medical Center building and renovation project. The capital campaign goal is \$2,000,000 of which approximately \$1,980,000 has been committed as of June 30, 2012. Support has come from the Foundation, a private trust and the community.

### **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, 2012 and 2011, the Auxiliary made contributions to the Medical Center of \$5,048 and \$8,247, respectively.

**Note 9 - 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, 2012 and 2011, was as follows:

|                                       | 2012 | 2011 |
|---------------------------------------|------|------|
| Medicare                              | 56%  | 48%  |
| Medicaid                              | 2%   | 3%   |
| Other Third-Party Payors and Patients | 20%  | 21%  |
| Commercial Insurance                  | 22%  | 28%  |
|                                       | 100% | 100% |

**Note 10 - Contingencies**

**Malpractice Insurance**

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**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.

**Litigations, Claims, and Disputes**

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Medical Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those related to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**Note 11 - Risk Management**

Belmond Community Hospital, d/b/a Belmond Medical Center, is exposed to various risks of loss related to torts; theft, 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 fiscal years.

**Note 12 - Subsequent Events**

The Medical Center has evaluated subsequent events through October 25, 2012, the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2012

**Belmond Community Hospital  
d/b/a 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)  
Required Supplementary Information  
June 30, 2012

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|                                   | <u>Actual<br/>Accrual<br/>Basis</u> | <u>Budget</u>            | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|-----------------------------------|-------------------------------------|--------------------------|-------------------------------------------------|
| Net Patient Service Revenue       | \$ 13,118,965                       | \$ 15,588,313            | \$ (2,469,348)                                  |
| Other Operating Revenues          | <u>166,490</u>                      | <u>122,801</u>           | <u>43,689</u>                                   |
| Total Operating Revenues          | 13,285,455                          | 15,711,114               | (2,425,659)                                     |
| Operating Expenses                | (13,540,308)                        | (15,551,191)             | 2,010,883                                       |
| Net Nonoperating Revenues         | 21,882                              | (16,594)                 | 38,476                                          |
| Capital Grants and Contributions  | <u>10,048</u>                       | <u>68,500</u>            | <u>(58,452)</u>                                 |
| Increase (Decrease) in Net Assets | <u><u>\$ (222,923)</u></u>          | <u><u>\$ 211,829</u></u> | <u><u>\$ (434,752)</u></u>                      |

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, 2012.

During the year ended June 30, 2012, the Medical Center's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2012 and 2011

# Belmond Community Hospital d/b/a Belmond Medical Center

## Independent Auditor's Report on Supplementary Information

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), as of and for the years ended June 30, 2012 and 2011, and our report thereon dated October 25, 2012, which expressed an unqualified opinion on those financial statements, appears on page 2. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts, collection statistics, supplies and prepaid expenses, statistical information, and the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, collection statistics, and statistical information, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Dubuque, Iowa  
October 25, 2012

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|                                                              | Total                |                      |
|--------------------------------------------------------------|----------------------|----------------------|
|                                                              | 2012                 | 2011                 |
| Patient Care Services                                        |                      |                      |
| Adults and pediatrics                                        | \$ 800,194           | \$ 534,815           |
| Swing-bed                                                    | 394,208              | 345,164              |
| Subtotal                                                     | <u>1,194,402</u>     | <u>879,979</u>       |
| Other Professional Services                                  |                      |                      |
| Operating room                                               | 922,256              | 972,190              |
| Anesthesiology                                               | 1,061,550            | 1,006,086            |
| Radiology                                                    | 3,508,172            | 3,092,562            |
| Nuclear medicine                                             | 448,457              | 406,247              |
| Laboratory                                                   | 3,068,565            | 2,720,583            |
| Respiratory therapy                                          | 2,302,152            | 2,117,664            |
| Electroencephalography                                       | 342,543              | 293,965              |
| Occupational therapy                                         | 293,432              | 268,085              |
| Physical therapy                                             | 754,768              | 898,636              |
| Enterstomal therapy                                          | 1,835                | 11,205               |
| Cardiac rehab                                                | 174,647              | 107,832              |
| Speech therapy                                               | 24,945               | 24,256               |
| Medical and surgical supplies                                | 955,383              | 960,721              |
| Pharmacy                                                     | 1,814,712            | 1,643,211            |
| Clinic                                                       | 2,241,579            | 2,062,159            |
| Emergency services                                           | 1,297,439            | 1,249,822            |
| Diabetic                                                     | 6,100                | 7,290                |
| Ambulance                                                    | 425,633              | 376,933              |
| Fitness center                                               | 49,614               | 45,167               |
| Subtotal                                                     | <u>19,693,782</u>    | <u>18,264,614</u>    |
| Total                                                        | 20,888,184           | 19,144,593           |
| Charity care                                                 | <u>(55,021)</u>      | <u>(54,736)</u>      |
| Total patient service revenue                                | <u>20,833,163</u>    | <u>19,089,857</u>    |
| Contractual Adjustments                                      |                      |                      |
| Medicare                                                     | (4,641,839)          | (4,492,317)          |
| Medicaid                                                     | (425,273)            | (486,568)            |
| Blue Cross                                                   | (1,641,662)          | (1,334,833)          |
| Other                                                        | <u>(508,741)</u>     | <u>(515,423)</u>     |
| Total contractual adjustments                                | <u>(7,217,515)</u>   | <u>(6,829,141)</u>   |
| Net Patient Service Revenue                                  | 13,615,648           | 12,260,716           |
| Provision for Bad Debts                                      | <u>(496,683)</u>     | <u>(356,938)</u>     |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | <u>\$ 13,118,965</u> | <u>\$ 11,903,778</u> |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2012 and 2011

| Inpatient           |                     | Outpatient           |                      |
|---------------------|---------------------|----------------------|----------------------|
| 2012                | 2011                | 2012                 | 2011                 |
| \$ 800,194          | \$ 534,815          | \$ -                 | \$ -                 |
| 394,208             | 345,164             | -                    | -                    |
| <u>1,194,402</u>    | <u>879,979</u>      | <u>-</u>             | <u>-</u>             |
| 82,279              | 41,452              | 839,977              | 930,738              |
| 56,443              | 28,299              | 1,005,107            | 977,787              |
| 371,676             | 194,281             | 3,136,496            | 2,898,281            |
| -                   | -                   | 448,457              | 406,247              |
| 582,837             | 421,714             | 2,485,728            | 2,298,869            |
| 1,618,652           | 1,381,633           | 683,500              | 736,031              |
| 312                 | 1,081               | 342,231              | 292,884              |
| 159,362             | 133,861             | 134,070              | 134,224              |
| 254,267             | 187,201             | 500,501              | 711,435              |
| 155                 | 440                 | 1,680                | 10,765               |
| -                   | -                   | 174,647              | 107,832              |
| 16,901              | 7,629               | 8,044                | 16,627               |
| 540,934             | 483,212             | 414,449              | 477,509              |
| 874,671             | 784,863             | 940,041              | 858,348              |
| 254,520             | 205,004             | 1,987,059            | 1,857,155            |
| -                   | -                   | 1,297,439            | 1,249,822            |
| -                   | -                   | 6,100                | 7,290                |
| 31,933              | 15,378              | 393,700              | 361,555              |
| 3,824               | -                   | 45,790               | 45,167               |
| <u>4,848,766</u>    | <u>3,886,048</u>    | <u>14,845,016</u>    | <u>14,378,566</u>    |
| <u>\$ 6,043,168</u> | <u>\$ 4,766,027</u> | <u>\$ 14,845,016</u> | <u>\$ 14,378,566</u> |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Other Operating Revenues  
Years Ended June 30, 2012 and 2011

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|                                    | <u>2012</u>                  | <u>2011</u>                 |
|------------------------------------|------------------------------|-----------------------------|
| Other Operating Revenues           |                              |                             |
| Grant revenue                      | \$ 114,414                   | \$ 17,191                   |
| Rent income                        | 32,734                       | 32,571                      |
| Cafeteria sales                    | 14,073                       | 7,528                       |
| Medical records transcripts        | 468                          | 525                         |
| Other                              | <u>4,801</u>                 | <u>4,258</u>                |
| <br>Total other operating revenues | <br><u><u>\$ 166,490</u></u> | <br><u><u>\$ 62,073</u></u> |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

|                             | 2012             | 2011           |
|-----------------------------|------------------|----------------|
| Nursing Administration      |                  |                |
| Salaries and wages          | \$ 55,108        | \$ 94,132      |
| Supplies and other expenses | 34,621           | 3,737          |
|                             | <u>89,729</u>    | <u>97,869</u>  |
| Adults and Pediatrics       |                  |                |
| Salaries and wages          | 918,032          | 789,852        |
| Supplies and other expenses | 391,310          | 115,297        |
|                             | <u>1,309,342</u> | <u>905,149</u> |
| Operating Room              |                  |                |
| Salaries and wages          | 3,610            | 8,670          |
| Supplies and other expenses | 625,615          | 471,851        |
|                             | <u>629,225</u>   | <u>480,521</u> |
| Anesthesiology              |                  |                |
| Supplies and other expenses | 302,288          | 281,010        |
|                             | <u>302,288</u>   | <u>281,010</u> |
| Radiology                   |                  |                |
| Salaries and wages          | 249,095          | 226,091        |
| Supplies and other expenses | 702,477          | 659,679        |
|                             | <u>951,572</u>   | <u>885,770</u> |
| Nuclear Medicine            |                  |                |
| Supplies and other expenses | 88,683           | 83,633         |
|                             | <u>88,683</u>    | <u>83,633</u>  |
| Laboratory                  |                  |                |
| Salaries and wages          | 268,267          | 238,985        |
| Supplies and other expenses | 304,630          | 268,642        |
|                             | <u>572,897</u>   | <u>507,627</u> |
| Respiratory Therapy         |                  |                |
| Supplies and other expenses | 531,245          | 718,144        |
|                             | <u>531,245</u>   | <u>718,144</u> |
| Occupational Therapy        |                  |                |
| Salaries and wages          | 45,979           | 44,582         |
| Supplies and other expenses | 67,959           | 60,060         |
|                             | <u>113,938</u>   | <u>104,642</u> |
| Physical Therapy            |                  |                |
| Salaries and wages          | 259,266          | 208,984        |
| Supplies and other expenses | 155,197          | 97,513         |
|                             | <u>414,463</u>   | <u>306,497</u> |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

|                                      | <u>2012</u>      | <u>2011</u>      |
|--------------------------------------|------------------|------------------|
| Speech Therapy                       |                  |                  |
| Supplies and other expenses          | \$ 7,312         | \$ 15,117        |
| Central Services and Supply          |                  |                  |
| Salaries and wages                   | 81,906           | 71,378           |
| Supplies and other expenses          | 8,730            | 4,874            |
|                                      | <u>90,636</u>    | <u>76,252</u>    |
| Medical Supplies Charged to Patients |                  |                  |
| Supplies and other expenses          | <u>150,143</u>   | <u>142,265</u>   |
| Drugs Charged to Patients            |                  |                  |
| Salaries and wages                   | 29,749           | 27,561           |
| Supplies and other expenses          | 309,810          | 272,111          |
|                                      | <u>339,559</u>   | <u>299,672</u>   |
| Clinic                               |                  |                  |
| Salaries and wages                   | 380,039          | 358,166          |
| Supplies and other expenses          | 1,339,241        | 1,224,388        |
|                                      | <u>1,719,280</u> | <u>1,582,554</u> |
| Emergency Services                   |                  |                  |
| Salaries and wages                   | 167,617          | 107,413          |
| Supplies and other expenses          | 921,746          | 826,605          |
|                                      | <u>1,089,363</u> | <u>934,018</u>   |
| Diabetic                             |                  |                  |
| Supplies and other expenses          | <u>-</u>         | <u>3,712</u>     |
| Ambulance                            |                  |                  |
| Salaries and wages                   | 84,019           | 116,174          |
| Supplies and other expenses          | 27,361           | 35,737           |
|                                      | <u>111,380</u>   | <u>151,911</u>   |
| Fitness Center                       |                  |                  |
| Salaries and wages                   | 8,023            | 38,506           |
| Supplies and other expenses          | 9,984            | 23,250           |
|                                      | <u>18,007</u>    | <u>61,756</u>    |
| Electroencephalography               |                  |                  |
| Supplies and other expenses          | <u>197,631</u>   | <u>160,552</u>   |
| Medical Records                      |                  |                  |
| Salaries and wages                   | 228,343          | 256,249          |
| Supplies and other expenses          | 133,343          | 128,524          |
|                                      | <u>361,686</u>   | <u>384,773</u>   |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

|                               | <u>2012</u>          | <u>2011</u>          |
|-------------------------------|----------------------|----------------------|
| Dietary                       |                      |                      |
| Salaries and wages            | \$ 132,984           | \$ 128,708           |
| Supplies and other expenses   | <u>76,972</u>        | <u>57,383</u>        |
|                               | <u>209,956</u>       | <u>186,091</u>       |
| Operation of Plant            |                      |                      |
| Salaries and wages            | 127,223              | 129,680              |
| Supplies and other expenses   | <u>248,049</u>       | <u>149,586</u>       |
|                               | <u>375,272</u>       | <u>279,266</u>       |
| Housekeeping                  |                      |                      |
| Salaries and wages            | 67,498               | 45,378               |
| Supplies and other expenses   | <u>22,824</u>        | <u>17,155</u>        |
|                               | <u>90,322</u>        | <u>62,533</u>        |
| Laundry and Linen             |                      |                      |
| Supplies and other expenses   | <u>26,285</u>        | <u>23,465</u>        |
| Business Office               |                      |                      |
| Salaries and wages            | 298,294              | 304,201              |
| Supplies and other expenses   | <u>124,373</u>       | <u>81,259</u>        |
|                               | <u>422,667</u>       | <u>385,460</u>       |
| Administrative Services       |                      |                      |
| Salaries and wages            | 454,014              | 351,048              |
| Supplies and other expenses   | <u>926,087</u>       | <u>760,898</u>       |
|                               | <u>1,380,101</u>     | <u>1,111,946</u>     |
| Unassigned Expenses           |                      |                      |
| Depreciation and amortization | 706,802              | 572,582              |
| Employee benefits             | <u>1,240,524</u>     | <u>1,132,904</u>     |
|                               | <u>1,947,326</u>     | <u>1,705,486</u>     |
| Total Operating Expenses      | <u>\$ 13,540,308</u> | <u>\$ 11,937,691</u> |

**Belmond Community Hospital  
d/b/a Belmond Medical Center**

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
Years Ended June 30, 2012 and 2011

**Analysis of Aging**

| Days Since Discharge                  | June 30, 2012       |                  | June 30, 2011       |                  |
|---------------------------------------|---------------------|------------------|---------------------|------------------|
|                                       | Amount              | Percent to Total | Amount              | Percent to Total |
| 30 days or less                       | \$ 1,432,840        | 45.25%           | \$ 1,923,411        | 56.41%           |
| 31 to 60 days                         | 613,347             | 19.37%           | 734,619             | 21.55%           |
| 61 to 90 days                         | 225,031             | 7.10%            | 199,268             | 5.84%            |
| 91 days and over                      | 895,466             | 28.28%           | 552,223             | 16.20%           |
|                                       | <u>3,166,684</u>    | <u>100.00%</u>   | <u>3,409,521</u>    | <u>100.00%</u>   |
| Less: Allowance for doubtful accounts | 389,578             |                  | 386,879             |                  |
| Allowance for contractual adjustments | <u>867,976</u>      |                  | <u>1,035,928</u>    |                  |
| Net                                   | <u>\$ 1,909,130</u> |                  | <u>\$ 1,986,714</u> |                  |

**Analysis of Allowance for Doubtful Accounts  
Years Ended June 30, 2012 and 2011**

|                                   | 2012              | 2011              |
|-----------------------------------|-------------------|-------------------|
| Beginning Balance                 | <u>\$ 386,879</u> | <u>\$ 352,411</u> |
| Add: Provision for bad debts      | 496,683           | 356,938           |
| Recoveries previously written off | 133,426           | 114,033           |
|                                   | <u>630,109</u>    | <u>470,971</u>    |
| Less: Accounts written off        | <u>(627,410)</u>  | <u>(436,503)</u>  |
| Ending Balance                    | <u>\$ 389,578</u> | <u>\$ 386,879</u> |

**Collection Statistics**

|                                                       | 2012         | 2011         |
|-------------------------------------------------------|--------------|--------------|
| Net accounts receivable - patients                    | \$ 1,909,130 | \$ 1,986,714 |
| Number of days charges outstanding (1)                | 59           | 51           |
| Uncollectible accounts (2)                            | \$ 589,301   | \$ 445,663   |
| Percentage of uncollectible accounts to total charges | 2.8%         | 2.3%         |

(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 Expenses  
Years Ended June 30, 2012 and 2011

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|                        | <u>2012</u>       | <u>2011</u>       |
|------------------------|-------------------|-------------------|
| Supplies               |                   |                   |
| General                | \$ 63,521         | \$ 60,775         |
| Pharmacy               | 60,618            | 51,437            |
| Dietary                | 4,753             | 7,182             |
| Other                  | <u>19,871</u>     | <u>18,273</u>     |
| Total supplies         | <u>\$ 148,763</u> | <u>\$ 137,667</u> |
| <br>Prepaid Expenses   |                   |                   |
| ER coverage            | \$ 46,349         | \$ 83,428         |
| Insurance              | 36,712            | 28,135            |
| Other                  | <u>155,849</u>    | <u>72,656</u>     |
| Total prepaid expenses | <u>\$ 238,910</u> | <u>\$ 184,219</u> |

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2012 and 2011

|                                              | <u>2012</u>         | <u>2011</u>         |
|----------------------------------------------|---------------------|---------------------|
| Patient Days                                 |                     |                     |
| Acute                                        | 992                 | 709                 |
| Swing-bed and intermediate                   | <u>1,068</u>        | <u>944</u>          |
| Totals                                       | <u><u>2,060</u></u> | <u><u>1,653</u></u> |
| Admissions                                   |                     |                     |
| Acute                                        | 336                 | 262                 |
| Swing-bed and intermediate                   | <u>130</u>          | <u>108</u>          |
| Totals                                       | <u><u>466</u></u>   | <u><u>370</u></u>   |
| Discharges                                   |                     |                     |
| Acute                                        | 336                 | 260                 |
| Swing-bed and intermediate                   | <u>127</u>          | <u>107</u>          |
| Totals                                       | <u><u>463</u></u>   | <u><u>367</u></u>   |
| Average Length of Stay                       |                     |                     |
| Acute                                        | 2.95                | 2.73                |
| Swing-bed and intermediate                   | 8.41                | 8.82                |
| Beds                                         | 22                  | 22                  |
| Occupancy Percentage                         |                     |                     |
| Acute, based on 22 beds                      | 12.4%               | 8.8%                |
| Swing-bed and intermediate, based on 22 beds | 13.3%               | 11.8%               |



**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 sheet of the primary government of Belmond Community Hospital, d/b/a Belmond Medical Center (Medical Center), as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Belmond Medical Center is responsible for establishing and maintaining effective 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 Questioned Costs as II-A-12 and II-B-12, that we consider 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 the 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*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2012, 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 Questioned Costs. 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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa  
October 25, 2012

**Independent Auditor's Report on Compliance with Requirements That Could Have  
a Direct and Material Effect on Its Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133**

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

**Compliance**

We have audited Belmond Community Hospital, d/b/a Belmond Medical Center's (Medical Center) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Belmond Medical Center's major federal program for the year ended June 30, 2012. The Medical Center's major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## **Internal Control over Compliance**

Management of Belmont Medical Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with the requirements that could have a direct and material effect on the major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of Belmont Medical Center as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Trustees and management of Belmont Medical Center, and other parties to whom Belmont Medical Center may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa  
October 25, 2012

Belmond Community Hospital  
d/b/a Belmond Medical Center  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

| <u>Grantor/Program</u>                                                                 | <u>CFDA<br/>Number</u> | <u>Agency<br/>Pass-through<br/>Number</u> | <u>Program<br/>Expenditures</u> |
|----------------------------------------------------------------------------------------|------------------------|-------------------------------------------|---------------------------------|
| United States Department of Agriculture                                                |                        |                                           |                                 |
| Direct Program                                                                         |                        |                                           |                                 |
| ARRA - Community Facilities Loans and Grants                                           | 10.780                 |                                           | \$ 7,348,046                    |
| Community Facilities Loans and Grants                                                  | 10.766                 |                                           | <u>1,838,501</u>                |
| Total United States Department of Agriculture                                          |                        |                                           | <u>9,186,547</u>                |
| United States Department of Health and Human Services                                  |                        |                                           |                                 |
| Pass-through program from:                                                             |                        |                                           |                                 |
| Iowa Department of Public Health                                                       |                        |                                           |                                 |
| Small Rural Hospital Improvement<br>Grant Program                                      | 93.301                 | 5882SH05                                  | 7,323                           |
| National Bioterrorism Hospital<br>Preparedness Program                                 | 93.889                 | 5882BHP22                                 | 10,210                          |
| Pass-through program from:                                                             |                        |                                           |                                 |
| Wright Medical Center                                                                  |                        |                                           |                                 |
| Rural Health Care Services Outreach<br>and Rural Health Network<br>Development Program | 93.912                 | H9CRH22889A0                              | <u>93,816</u>                   |
| Total United States Department of<br>Health and Human Services                         |                        |                                           | <u>111,349</u>                  |
|                                                                                        |                        |                                           | <u><u>\$ 9,297,896</u></u>      |

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Belmond Medical Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The purpose of the SEFA is to present a summary of those activities of Belmond Medical Center for the year ended June 30, 2012, which the United States government has financed. For the purpose of the SEFA, federal awards include all federal assistance entered into directly between Belmond Medical Center and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. Since the SEFA presents only a selection portion of the activities of Belmond Medical Center, it is not intended to, and does not present, the financial position, results of operations, changes in net assets, and cash flows of Belmond Medical Center.

**Note 2 - ARRA - Community Facilities Loans and Grants (#10.780) and Community Facilities Loans and Grants (#10.766)**

The financing for this building project consists of two different components. Those components are as follows:

|                                                      |                             |
|------------------------------------------------------|-----------------------------|
| USDA Direct Loan Revenue Bonds Payable, Series 2010A | \$ 21,600,000               |
| Hospital Revenue Bonds Payable, Series 2010B/C       | <u>2,400,000</u>            |
|                                                      | <u><u>\$ 24,000,000</u></u> |

The Hospital Revenue Bonds, Series 2010B/C, are made up of two components, Series 2010B (\$2,160,000) and Series 2010C (\$240,000). The Hospital Revenue Bonds, Series 2010B, are 100% guaranteed by USDA.

**Part I: Summary of the Independent Auditor's Results**

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified No  
Significant deficiencies Yes (Part II)

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs:

Material weakness identified No  
Significant deficiency None reported

Type of auditor's report issued on compliance for the major program Unqualified

Any audit findings disclosed that are required to be reported in  
accordance with Circular A-133, Section .510(a) No

Identification of major program:

CFDA Number  
10.766  
10.780

Name of Federal Program or Cluster  
Community Facilities Loans and Grants  
ARRA - Community Facilities Loans and Grants

Dollar threshold used to distinguish between  
Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee No

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

**Significant Deficiencies:**

**II-A-12 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.

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

**II-B-12 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** – 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 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.

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

**III-A-12 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.

**III-B-12 Travel Expense** – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

**III-C-12 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 | \$91,357 for insurance coverage |
| Steve Been, Board Member, part owner of PSI Printing Company      | \$89,164 for services           |

**III-D-12 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

**III-E-12 Deposits and Investments** – No instances of noncompliance 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.

Name and address of independent public accounting firm: Eide Bailly LLP  
3999 Pennsylvania Ave., Ste. 100  
Dubuque, IA 52002-2273

Audit Period: July 1, 2011 to June 30, 2012

The findings from the 2012 schedule of findings and questioned cost are discussed below.

### **Findings Relating to the Financial Statement Audit**

#### ***Finding II-A-12 Segregation of Duties***

Belmond Community Hospital, d/b/a Belmond Medical Center, does not have adequate segregation of duties.

Responsible Individuals: Greg Polzin, Chief Financial Officer

Corrective Action Plan: 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.

Anticipated Completion Date: Ongoing analysis

#### ***Finding II-B-12 Preparation of Financial Statements***

Belmond Community Hospital, d/b/a Belmond Medical Center, does not have an internal control system designed to provide for the preparation of the annual financial statements and related footnotes being audited in accordance with generally accepted accounting principles (GAAP) in the United States. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Responsible Individuals: Greg Polzin, Chief Financial Officer

Corrective Action Plan: 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.

Anticipated Completion Date: Ongoing analysis



October 25, 2012

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, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, 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 15, 2012. 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 the 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, 2012. 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.

The financial statement disclosures are neutral, consistent, and clear.

### **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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following adjustments were made during the audit, with significant adjustments listed separately:

|                                                   |    |        |
|---------------------------------------------------|----|--------|
| To adjust estimated third-party payor settlements | \$ | 99,000 |
| To adjust reserves for tentative settlements      |    | 52,000 |
| To record additional grant receivable             |    | 28,000 |

The net effect of the adjustments was to increase net assets by \$179,000.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 25, 2012.

### **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.

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.

Sincerely,

EIDE BAILLY LLP

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

xc: Ms. Nancy Gabrielson, Administrator/CEO