



Financial Statements  
June 30, 2013 and 2012

**Belmond Community Hospital  
d/b/a Iowa Specialty Hospital -  
Belmond**

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Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Board of Trustees and Hospital 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

Medical Center Officials

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 Iowa Specialty Hospital - Belmond  
Belmond, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the primary government (business-type activities) of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on Discretely Presented Component Unit**

The financial statements referred to above do not include financial data for the Hospital's legally separate component unit (Belmond Community Hospital Foundation). Accounting principles generally accepted in the United States of America require financial data for this component unit to be reported with the financial data of the Hospital unless the Hospital issues financial statements for the financial reporting entity that include the financial data for its component unit. The Hospital has not issued such reporting entity financial statements; furthermore, no financial information was provided so the effect of the departure is unknown.

### **Adverse Opinion on Discretely Presented Component Unit**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not purport to, and do not present fairly the financial position of the aggregate fund information of the primary government as of June 30, 2013 and 2012, or the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the primary government (business-type activities) of Belmond Community Hospital d/b/a Iowa Specialty Hospital - Belmond as of June 30, 2013 and 2012 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 and the Budgetary Comparison Information on pages 33 and 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

## **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2013 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Hospital's internal control over financial reporting and compliance.

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

Dubuque, Iowa  
October 25, 2013

This discussion and analysis of the financial performance of Iowa Specialty Hospital – Belmond provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2013, 2012, and 2011. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital'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 position, 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 Hospital's finances.

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

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital 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 Position report the Net Position of the Hospital and the changes in them. The Hospital's Net Position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's Net Position 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, 2013 indicates total assets of \$31,819,367, total liabilities of \$26,265,271, and Net Position of \$5,554,096.
- The Statements of Revenues, Expenses and Changes in Net Position indicates total net patient service revenue of \$15,511,812 increased 17.9% over the previous fiscal year, total operating expenses of \$16,212,491 increased 19.7% resulting in a gain from operations of \$845,274. A net nonoperating loss of \$766,543 brings the revenues in excess of expenses to \$78,731.

- The Hospital's current assets exceeded its current liabilities by \$4,192,811 at June 30, 2013 providing a 2.65 current ratio.
- The Hospital's net capital assets increased by \$541,897 to \$24,970,339.
- The Hospital's total debt increased by \$3,527,247 to \$24,701,150.
- The Hospital recorded an increase in Net Position for fiscal year ending June 30, 2013 amounting to \$894,718.

### **Organization Highlights**

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

- Finished the remodel of the nutritional services area including a new cafeteria and ancillary spaces including radiology
- Finished the remodel of the Belmond Clinic including new registration area
- Converted original facility and patient rooms to specialty clinic, outpatient and administration areas
- Purchased equipment for the new remodel including new dietary equipment, new patient beds for the acute floor, eye surgery stretcher, sterrad machine and C-arm
- Invested in new technology including electronic medical record software and related hardware
- Met stage one of meaningful use and started a task force to meet stage two of meaningful use
- Added outreach clinics in two additional communities and the medical staff associated with those clinics
- Received two Press Ganey awards for outstanding patient satisfaction in the areas of Inpatient and Emergency Room
- Received from Healthgrades an Outstanding Patient Experience Award for 2012
- Continued to join management teams with its managing hospital

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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**Condensed Financial Statements**

*Balance Sheets*

	June 30, 2013	June 30, 2012	June 30, 2011
Assets			
Current Assets	\$ 6,741,154	\$ 3,651,500	\$ 3,807,145
Assets Limited as to Use	56,982	54,515	43,292
Capital Assets, Net	24,970,339	24,428,442	14,419,905
Other Assets	50,892	74,741	12,808
	<u>31,819,367</u>	<u>28,209,198</u>	<u>18,283,150</u>
Total assets	<u>\$ 31,819,367</u>	<u>\$ 28,209,198</u>	<u>\$ 18,283,150</u>
Liabilities and Net Position			
Current Liabilities	\$ 2,548,343	\$ 3,038,108	\$ 3,306,247
Long-Term Liabilities	23,716,928	20,511,712	10,094,602
	<u>26,265,271</u>	<u>23,549,820</u>	<u>13,400,849</u>
Total liabilities	<u>26,265,271</u>	<u>23,549,820</u>	<u>13,400,849</u>
Net Position			
Net Investment in capital assets	269,189	3,254,539	4,095,779
Unrestricted	5,284,907	1,404,839	786,522
	<u>5,554,096</u>	<u>4,659,378</u>	<u>4,882,301</u>
Total net position	<u>5,554,096</u>	<u>4,659,378</u>	<u>4,882,301</u>
Total liabilities and net position	<u>\$ 31,819,367</u>	<u>\$ 28,209,198</u>	<u>\$ 18,283,150</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 15,511,812	\$ 13,151,699	\$ 11,936,349
Other operating revenues	1,545,953	133,756	29,502
Total Operating Revenues	<u>17,057,765</u>	<u>13,285,455</u>	<u>11,965,851</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,206,125	5,099,184	4,678,662
Supplies and other expenses	8,839,409	7,734,322	6,686,447
Depreciation and amortization	2,166,957	706,657	572,582
Total Operating Expenses	<u>16,212,491</u>	<u>13,540,163</u>	<u>11,937,691</u>
Operating Income (Loss)	<u>845,274</u>	<u>(254,708)</u>	<u>28,160</u>
Nonoperating Revenues (Expenses)			
Investment income	1,765	2,240	2,667
Noncapital grants and contributions received	176,281	89,788	61,754
Interest and amortization expense	(1,003,843)	(83,324)	(27,833)
Build America Bond interest subsidy	58,273	5,180	-
Other	981	7,853	5,532
Net Nonoperating Revenues (Expenses)	<u>(766,543)</u>	<u>21,737</u>	<u>42,120</u>
Revenues in Excess of (Less Than) Expenses	78,731	(232,971)	70,280
Capital Grants and Contributions	<u>815,987</u>	<u>10,048</u>	<u>167,375</u>
Change in Net Position	894,718	(222,923)	237,655
Net Position, Beginning of Year	<u>4,659,378</u>	<u>4,882,301</u>	<u>4,644,646</u>
Net Position, End of Year	<u>\$ 5,554,096</u>	<u>\$ 4,659,378</u>	<u>\$ 4,882,301</u>

### **Capital Assets**

Iowa Specialty Hospital – Belmond finished the renovation phase of its existing space. The Hospital's construction plans were 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, Iowa Specialty Hospital – Belmond had \$24,701,150 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 Hospital's Board and management considered many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 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 two of meaningful use
- The effects of the Affordable Care Act

### **Summary**

The Hospital'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 Hospital's Medical Staff for their dedication and support provided.

**Contacting the Hospital's Finance Department**

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

Iowa Specialty Hospital – Belmond  
Attn: Chief Financial Officer  
403 1<sup>st</sup> Street SE  
Belmond, IA 50421

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents - Note 3	\$ 2,482,904	\$ 857,593
Receivables		
Patient, net of allowance for uncollectible accounts of \$714,000 in 2013 and \$390,000 in 2012	3,042,728	1,909,130
Estimated third-party payor settlements	169,000	323,000
Other	466,798	174,104
Supplies	384,272	148,763
Prepaid expenses	195,452	238,910
Total current assets	<u>6,741,154</u>	<u>3,651,500</u>
Assets Limited as to Use or Restricted - Note 3		
Internally designated for ambulance	<u>56,982</u>	<u>54,515</u>
Capital Assets - Note 4		
Capital assets not being depreciated	436,658	2,260,382
Depreciable capital assets, net of accumulated depreciation	<u>24,533,681</u>	<u>22,168,060</u>
Total capital assets, net	<u>24,970,339</u>	<u>24,428,442</u>
Other Assets		
Notes receivable	50,892	9,311
Debt issuance costs, net	<u>-</u>	<u>65,430</u>
Total other assets	<u>50,892</u>	<u>74,741</u>
Total assets	<u>\$ 31,819,367</u>	<u>\$ 28,209,198</u>

See Notes to Financial Statements

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Balance Sheets  
June 30, 2013 and 2012

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 984,222	\$ 662,191
Accounts payable		
Trade	320,264	261,943
Construction	-	913,698
Affiliated organization - Note 8	50,624	266,469
Accrued expenses		
Salaries and wages	119,073	157,177
Vacation	211,458	173,316
Payroll taxes and employee benefits	141,694	74,387
Interest	721,008	528,927
Total current liabilities	2,548,343	3,038,108
Long-Term Debt, Less Current Maturities - Note 6	23,716,928	20,511,712
Total liabilities	26,265,271	23,549,820
Net Position		
Net investment in capital assets	269,189	3,254,539
Unrestricted	5,284,907	1,404,839
Total net position	5,554,096	4,659,378
Total liabilities and net position	\$ 31,819,367	\$ 28,209,198

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$520,235 in 2013 and \$496,683 in 2012) - Note 2	\$ 15,511,812	\$ 13,151,699
Other operating revenues	1,545,953	133,756
Total Operating Revenues	17,057,765	13,285,455
Operating Expenses		
Salaries and wages	3,985,333	3,858,660
Employee benefits	1,220,792	1,240,524
Supplies and other expenses	8,839,409	7,734,322
Depreciation and amortization	2,166,957	706,657
Total Operating Expenses	16,212,491	13,540,163
Operating Income (Loss)	845,274	(254,708)
Nonoperating Revenues (Expenses)		
Investment income	1,765	2,240
Noncapital grants and contributions received	176,281	89,788
Interest and amortization expense	(1,003,843)	(83,324)
Build America Bond interest subsidy	58,273	5,180
Other	981	7,853
Net Nonoperating Revenues (Expenses)	(766,543)	21,737
Revenues in Excess of (Less Than) Expenses	78,731	(232,971)
Capital Grants and Contributions	815,987	10,048
Change in Net Position	894,718	(222,923)
Net Position, Beginning of Year	4,659,378	4,882,301
Net Position, End of Year	\$ 5,554,096	\$ 4,659,378

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 14,532,214	\$ 13,315,283
Payments of salaries and wages	(4,023,437)	(3,743,856)
Payments of supplies and other expenses	(10,304,327)	(9,605,400)
Other receipts and payments, net	1,206,932	50,339
Net Cash provided by Operating Activities	<u>1,411,382</u>	<u>16,366</u>
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	176,281	89,788
Other income	1,420	8,093
Net Cash provided by Noncapital Financing Activities	<u>177,701</u>	<u>97,881</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,677,543)	(10,183,542)
Payment of debt issuance costs	(21,600)	(65,430)
Interest payments on long-term debt	(756,482)	(300,197)
Proceeds from issuance of long-term debt	4,163,250	11,490,345
Principal payments on long-term debt	(636,003)	(640,568)
Build America Bond interest subsidy	63,019	44,690
Capital grants and contributions	815,987	10,048
Decrease in construction payable	(913,698)	(614,144)
Net Cash provided by (used for) Capital and Related Financing Activities	<u>36,930</u>	<u>(258,798)</u>
Cash Flows from Investing Activities		
Purchase of assets limited as to use	(2,467)	(11,223)
Investment income	1,765	2,240
Net Cash used for Investing Activities	<u>(702)</u>	<u>(8,983)</u>
Net Change in Cash and Cash Equivalents	1,625,311	(153,534)
Cash and Cash Equivalents at Beginning of Year	<u>857,593</u>	<u>1,011,127</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,482,904</u>	<u>\$ 857,593</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Income (Loss) to Net		
Cash provided by Operating Activities		
Operating income (loss)	\$ 845,274	\$ (254,708)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,166,957	706,657
Provision for bad debts	520,235	496,683
Changes in assets and liabilities		
Patient receivables	(1,653,833)	(419,099)
Estimated third-party payor settlements	154,000	86,000
Other receivables	(297,440)	(86,914)
Supplies	(235,509)	(11,096)
Prepaid expenses	43,458	(54,691)
Notes receivable	(41,581)	3,497
Accounts payable	(157,524)	(572,864)
Accrued expenses	67,345	122,901
	\$ 1,411,382	\$ 16,366
Net Cash provided by Operating Activities		
Supplemental Noncash Capital and Related Financing Activity		
Accounts payable for construction	\$ -	\$ 913,698
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (including amounts capitalized) in 2013 and 2012 was \$756,482 and \$300,197, respectively.		

## **Note 1 - Organization and Significant Accounting Policies**

### **Organization**

Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), 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 Hospital provides health care services in accordance with a Master Affiliation Agreement with Iowa Specialty Hospital - Clarion. Services are provided to residents of Wright and surrounding counties in central Iowa.

### **Tax Exempt Status**

The Hospital is exempt from income taxes as a political subdivision.

### **Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital 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 Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government. Under the provisions of GASB No. 61, Belmond Community Hospital Foundation is considered a legally separate component unit of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond. However, the Hospital has elected to exclude the Foundation from these financial statements.

### **Basis of Presentation**

The balance sheets display the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

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

*Restricted net position:*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

*Expendable* – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position which does not meet the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources 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 Hospital'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.

### **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 or restricted.

### **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 in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2013 to June 30, 2012. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

### **Supplies**

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

### **Assets Limited as to Use or Restricted**

Assets limited as to use include assets set aside by the Board of Trustees for future use towards the ambulance department, over which the Board retains control and may at its discretion subsequently use for other purposes.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

### **Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for the Hospital's operations are recorded as additions to net position 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. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized. 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

### **Financing Costs**

Financing costs are expensed as incurred.

### **Compensated Absences**

Hospital 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, 2013 and 2012.

### **Operating Revenues and Expenses**

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital'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 Hospital has agreements with third-party payors that provide for payments to the Hospital 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.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

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

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of the amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Hospital's charity care policy were \$11,520 and \$55,021 for the years ended June 30, 2013 and 2012, respectively. The direct and indirect costs related to these foregone charges were \$10,000 and \$36,000 at June 30, 2013 and 2012 based on average ratio of cost to gross charges.

In addition, the Hospital 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 Hospital 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.

### **Investment Income**

Interest on cash and deposits is included in non-operating revenues and expenses.

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$86,734 and \$64,653 for advertising costs for the years ended June 30, 2013 and 2012, respectively.

### **Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

#### *Medicare*

The Medicare incentive payments are available for the next three years. To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments.

#### *Medicaid*

Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the Hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transaction factor applicable to that payment year. The Hospital recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

### **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, 2012 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 position.

### **Note 2 - Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

#### **Medicare**

The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital 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 Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

#### **Medicaid**

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2010.

#### **Other Payors**

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

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Revenue from the Medicare and Medicaid programs accounted for approximately 66% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2013 and 62% and 4%, respectively, for the year ended June 30, 2012. The net patient service revenue for the years ended 2013 and 2012 increased approximately \$179,000 and \$102,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlement and years no longer subject to audits, reviews, and investigations, and prior-year retroactive adjustments in excess of amounts previously estimated. 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 Hospital may incur a liability for a claims overpayment at a future date. The Hospital 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 Hospital'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 Hospital and CMS.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Total Patient Service Revenue	<u>\$ 19,913,465</u>	<u>\$ 20,865,897</u>
Contractual Adjustments:		
Medicare	(1,561,971)	(4,641,839)
Medicaid	(312,822)	(425,273)
Blue Cross	(1,499,327)	(1,641,662)
Other	<u>(507,298)</u>	<u>(508,741)</u>
Total contractual adjustments	<u>(3,881,418)</u>	<u>(7,217,515)</u>
Net Patient Service Revenue	16,032,047	13,648,382
Provision for Bad Debts	<u>(520,235)</u>	<u>(496,683)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 15,511,812</u>	<u>\$ 13,151,699</u>

**Note 3 - Cash and Deposits**

The Hospital's deposits in banks at June 30, 2013 and 2012 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 Hospital 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, 2013 and 2012 the Hospital's carrying amounts of cash and deposits are as follows:

	2013	2012
Checking and Savings Accounts	\$ 157,698	\$ 571,451
Repurchase Agreement Invested in U.S. Government Bonds and Securities	2,382,188	340,657
Total deposits	\$ 2,539,886	\$ 912,108

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 2,482,904	\$ 857,593
Assets Limited as to Use	56,982	54,515
Total deposits	\$ 2,539,886	\$ 912,108

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

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**Note 4 - Capital Assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

	June 30, 2012				June 30, 2013
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 436,658	\$ -	\$ -	\$ -	\$ 436,658
Construction in progress	1,823,724	2,526,793	-	(4,350,517)	-
Total capital assets not being depreciated	<u>2,260,382</u>	<u>2,526,793</u>	<u>-</u>	<u>(4,350,517)</u>	<u>436,658</u>
Capital Assets Being Depreciated:					
Land improvements	2,366,855	100,933	-	125,427	2,593,215
Buildings	7,496,802	-	-	115,827	7,612,629
Fixed equipment	13,080,478	7,821	-	2,030,669	15,118,968
Major moveable equipment	3,756,972	73,748	30,376	2,078,594	5,878,938
Total capital assets being depreciated	<u>26,701,107</u>	<u>182,502</u>	<u>30,376</u>	<u>4,350,517</u>	<u>31,203,750</u>
Less Accumulated Depreciation for:					
Land improvements	48,529	136,452	-	-	184,982
Buildings	2,391,172	257,696	-	-	2,648,868
Fixed equipment	126,553	917,297	-	-	1,043,850
Major moveable equipment	1,966,793	855,513	29,937	-	2,792,369
Total accumulated depreciation	<u>4,533,047</u>	<u>2,166,958</u>	<u>29,937</u>	<u>-</u>	<u>6,670,069</u>
Total Capital Assets Being Depreciated, Net	<u>22,168,060</u>	<u>(1,984,456)</u>	<u>439</u>	<u>4,350,517</u>	<u>24,533,681</u>
Total Capital Assets, Net	<u>\$ 24,428,442</u>	<u>\$ 542,337</u>	<u>\$ 439</u>	<u>\$ -</u>	<u>\$ 24,970,339</u>

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Capital assets activity for the year ended June 30, 2013 2012 was as follows:

	June 30, 2011 Balance	Additions	Deductions	Transfers	June 30, 2012 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	2,407,680	144,138	160,646	-	2,391,172
Fixed equipment	81,650	78,145	33,242	-	126,553
Major moveable equipment	1,804,825	468,370	306,402	-	1,966,793
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>

**Note 5 - Leases**

The Hospital 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, 2013 and 2012 for all operating leases was \$239,092 and \$109,108, respectively. The capitalized leased assets consist of:

	2013	2012
Equipment	\$ 242,528	\$ 242,528
Less Accumulated Amortization	(101,053)	(52,548)
	\$ 141,475	\$ 189,980

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

Year Ending June 30,	Capital Leases	Operating Leases
2014	\$ 85,054	\$ 368,676
2015	7,089	303,480
2016	-	224,112
2017	-	104,912
2018	-	33,984
Total Minimum Lease Payments	92,143	\$ 1,035,164
Less interest	(1,687)	
Present Value of Minimum Lease Payments - Note 6	\$ 90,456	

**Note 6 - Long-Term Debt**

A schedule of changes in long-term debt at June 30, 2013 and 2012 is as follows:

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	Amounts Due Within One Year
Note Payable to Bank, 5.15%, Paid October 2012	\$ 5,188	\$ -	\$ (5,188)	\$ -	\$ -
Note Payable to Bank, 4.97% Due June 2015	187,158	-	(91,260)	95,898	95,898
USDA Direct Loan Revenue Bonds, Series 2010A (A)	18,035,838	3,564,162	-	21,600,000	285,657
Bank Loan Guaranteed by USDA, Series 2010B/C (B)	1,800,912	599,088	-	2,400,000	44,756
Capital Lease Obligation, 3.18%, due July 2014 - Note 5	171,235	-	(80,779)	90,456	83,386
Note Payable to Bank, 3.38% Due July 2014	973,572	-	(458,776)	514,796	474,525
Total Long-Term Debt	<u>\$ 21,173,903</u>	<u>\$ 4,163,250</u>	<u>\$ (636,003)</u>	24,701,150	<u>\$ 984,222</u>
Less Current Maturities Long-Term Debt, Less Current Maturities				<u>(984,222)</u>	
				<u>\$ 23,716,928</u>	

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

(A) - On August 18, 2010, the Hospital closed on the United States Department of Agriculture (USDA) Direct Loan Revenue Bonds, Series 2010A, in the sum of not to exceed \$21,600,000. As of June 30, 2013, all of the loan proceeds have been drawn down by the Hospital. Interest only payments at 4.00% were 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 Hospital had drawn approximately \$4,500,000 as of December 31, 2010. The loan is collateralized by a pledge of the Hospital's net revenues.

(B) - On August 18, 2010, the Hospital closed on a bank loan that is guaranteed by the USDA, Series 2010B/C, 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). As of June 30, 2013, all of the loan proceeds have been drawn down by the Hospital. Interest payments at 4.75% are payable monthly on the unpaid outstanding principal balance. Principal payments are payable monthly starting on August 1, 2013. 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 rates on these loans 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 loans are collateralized by a pledge of the Hospital's net revenues.

Under the terms of the Hospital Revenue Bonds 2010A, the Hospital will be required to maintain certain deposits with a trustee in order to properly set aside funding for future debt service.

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Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 984,222	\$ 964,485	\$ 1,948,707
2015	355,011	954,537	1,309,548
2016	320,378	941,335	1,261,713
2017	333,613	927,725	1,261,338
2018	347,400	913,550	1,260,950
2019-2023	1,964,650	4,333,648	6,298,298
2024-2028	2,406,140	3,879,759	6,285,899
2029-2033	2,947,514	3,323,296	6,270,810
2034-2038	3,611,549	2,640,903	6,252,452
2039-2043	3,934,081	1,836,199	5,770,280
2044-2048	4,406,658	1,007,999	5,414,657
2049-2053	3,089,934	143,420	3,233,354
Total	<u>\$ 24,701,150</u>	<u>\$ 21,866,856</u>	<u>\$ 46,568,006</u>

A summary of interest cost and rebates on borrowed funds during the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Interest Cost:		
Capitalized as part of construction project	\$ 31,750	\$ 580,319
Recognized as interest expense	916,813	83,179
Total	<u>\$ 948,563</u>	<u>\$ 663,498</u>
Interest Rebate:		
Capitalized as part of construction project (Build America Bond interest rebate)	\$ 49,813	\$ 57,839
Recognized as interest subsidy income	58,273	5,180
Total	<u>\$ 108,086</u>	<u>\$ 63,019</u>

**Note 7 - Pension and Retirement Benefits**

The Hospital 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 5.78% of their annual covered salary, and the Hospital is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.38% and 4.50% of their annual covered salary, and the Hospital was required to contribute 8.07% and 6.95 % of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$331,933, \$319,000, and \$254,015, respectively, equal to the required contributions for each year.

**Note 8 - Related Organizations**

**Master Affiliation Agreement**

Effective March 1, 2007, the Hospital has a Master Affiliation Agreement with Iowa Specialty Hospital - Clarion 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 Iowa Specialty Hospital - Belmond. As part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Iowa Specialty Hospital - Clarion whereby Iowa Specialty Hospital - Clarion provides professional medical services. Amounts paid to Iowa Specialty Hospital - Clarion for the provision of these services amounted to \$5,493,029 and \$3,814,804 for the years ended June 30, 2013 and 2012.

**Management Services Agreement**

The Hospital has a contractual arrangement with Iowa Specialty Hospital - Clarion to provide administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2013 and 2012 were \$230,037 and \$217,355.

**Due from and to Affiliated Organization**

As of June 30, 2013 and 2012, the Hospital's records reflect a receivable from Iowa Specialty Hospital - Clarion in the amount of \$403,651 and \$81,570, respectively, for various services and distributions related to these agreements which are included in other receivables on the balance sheets. As of June 30, 2013 and 2012, the Hospital's records also reflect a payable to Iowa Specialty Hospital - Clarion in the amount \$50,624 and \$266,649, respectively, for the various services and distributions related to these agreements which are included in accounts payable on the balance sheets.

**Belmond Community Hospital Foundation**

Belmond Community Hospital 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 Iowa Specialty Hospital - Belmond and other charitable 501(c)(3) organizations.

The Foundation has organized a capital campaign for the benefit of the Iowa Specialty Hospital - Belmond building and renovation project. The capital campaign has raised \$2,000,000 in donations committed as of June 30, 2013. During 2013, the Hospital received the first of three installments of \$675,000 which is included in capital grants and contributions on the statement of revenues, expenses and changes in net position. Support has come from the Foundation, a private trust and the community.

The Foundation made total contributions to the Hospital of \$725,000 during the fiscal year ended June 30, 2013. The Foundation did not make any contributions to the Hospital during the fiscal year ended June 30, 2012.

**Belmond Community Hospital Auxiliary**

The Belmond Community Hospital Auxiliary was established to advance and promote the welfare of Iowa Specialty Hospital - Belmond. The Auxiliary's unrestricted resources are distributed to the Hospital in amounts approved by the Auxiliary's Board of Directors. During the years ended June 30, 2013 and 2012 the Auxiliary made contributions to the Hospital of \$5,194 and \$5,048.

**Note 9 - Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2013 and 2012 was as follows:

	2013	2012
Medicare	41%	56%
Medicaid	5%	2%
Other Third-Party Payors and Patients	24%	20%
Commercial Insurance	30%	22%
	100%	100%

**Note 10 - Contingencies**

**Malpractice Insurance**

The Hospital 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 Hospital 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 Hospital 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 Hospital.

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**

The Hospital 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 Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

### **Note 12 - Electronic Health Record Incentive Payments**

The Hospital attested as a meaningful user of Electronic Health Records (EHR) during the year ended June 30, 2013. Accordingly, the Hospital received \$1,312,536 as a lump sum incentive payment related to Medicare EHR. The Hospital recognized the entire Medicare EHR payment as revenue in the year ended June 30, 2013.

The Hospital also recognized revenue of \$59,400 for the year ended June 30, 2013 related to Medicaid EHR incentive payments received. The total received to date represents 40% of the potential benefit to be received from the State of Iowa Medicaid program. Since the remaining payments are contingent upon the Hospital meeting future EHR objectives, there are no amounts accrued as receivable from the State of Iowa Medicaid program.

The incentive payments are reported in other operating revenue in the accompanying financial statements.

**Note 13 - Subsequent Events**

The Hospital has evaluated subsequent events through October 25, 2013 the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2013

**Belmond Community Hospital  
d/b/a Iowa Specialty Hospital -  
Belmond**

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in  
Net Position– Budget to Actual (Accrual Basis)  
Required Supplementary Information  
June 30, 2013

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	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Net Patient Service Revenue	\$ 15,511,812	\$ 16,375,095	\$ (863,283)
Other Operating Revenues	<u>1,545,953</u>	<u>1,450,238</u>	<u>95,715</u>
Total Operating Revenues	17,057,765	17,825,333	(767,568)
Operating Expenses	(16,212,491)	(16,842,876)	630,385
Net Nonoperating Revenues (Expenses)	(766,543)	(905,524)	138,981
Capital Grants and Contributions	<u>815,987</u>	<u>674,200</u>	<u>141,787</u>
Change in Net Position	<u>\$ 894,718</u>	<u>\$ 751,133</u>	<u>\$ 143,585</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.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital 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, 2013.

For the year ended June 30, 2013 the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2013 and 2012

**Belmond Community Hospital  
d/b/a Iowa Specialty Hospital -  
Belmond**



## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Belmond, Iowa

We have audited the financial statements of the primary government of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), as of and for the years ended June 30, 2013 and 2012, and our report thereon dated October 25, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 2 through 4. 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, supplies and prepaid expenses, 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.

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

October 25, 2013  
Dubuque, Iowa

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	Total	
	2013	2012
Patient Care Services		
Adults and pediatrics	\$ 961,079	\$ 800,194
Swing-bed	1,086,988	394,208
Subtotal	<u>2,048,067</u>	<u>1,194,402</u>
Other Professional Services		
Operating room	1,726,347	922,256
Anesthesiology	733,279	1,061,550
Radiology	3,246,950	3,508,172
Nuclear medicine	491,291	448,457
Laboratory	2,733,478	3,068,565
Respiratory therapy	876,761	2,302,152
Electroencephalography	244,621	342,543
Occupational therapy	285,986	293,432
Physical therapy	844,892	756,603
Cardiac rehab	195,380	174,647
Speech therapy	31,662	24,945
Medical and surgical supplies	374,205	919,655
Implant supplies	161,521	35,728
Pharmacy	1,321,295	1,814,712
Clinic	1,928,006	2,241,579
Emergency services	1,218,548	1,216,700
Observation	200,456	112,672
Diabetic	-	6,100
Ambulance	573,629	397,524
Fitness center	43,662	45,790
Specialty clinic	638,939	32,734
Podiatry	6,010	-
Subtotal	<u>17,876,918</u>	<u>19,726,516</u>
Total	19,924,985	20,920,918
Charity care	<u>(11,520)</u>	<u>(55,021)</u>
Total patient service revenue	<u>19,913,465</u>	<u>20,865,897</u>
Contractual Adjustments		
Medicare	(1,561,971)	(4,641,839)
Medicaid	(312,822)	(425,273)
Blue Cross	(1,499,327)	(1,641,662)
Other	<u>(507,298)</u>	<u>(508,741)</u>
Total contractual adjustments	<u>(3,881,418)</u>	<u>(7,217,515)</u>
Net Patient Service Revenue	16,032,047	13,648,382
Provision for Bad Debts	<u>(520,235)</u>	<u>(496,683)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 15,511,812</u>	<u>\$ 13,151,699</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2013 and 2012

Inpatient		Outpatient	
2013	2012	2013	2012
\$ 961,079	\$ 800,194	\$ -	\$ -
1,086,988	394,208	-	-
<u>2,048,067</u>	<u>1,194,402</u>	<u>-</u>	<u>-</u>
287,077	82,279	1,439,270	839,977
100,803	56,443	632,476	1,005,107
225,861	371,676	3,021,089	3,136,496
5,162	5,086	486,129	443,371
444,228	585,402	2,289,250	2,483,163
644,882	1,618,652	231,879	683,500
670	312	243,951	342,231
161,992	159,362	123,994	134,070
205,495	254,422	639,397	502,181
137	-	195,243	174,647
9,487	16,901	22,175	8,044
167,877	540,934	206,328	378,721
47,220	-	114,301	35,728
720,089	874,671	601,206	940,041
166,855	254,520	1,761,151	1,987,059
-	31,933	1,218,548	1,184,767
-	-	200,456	112,672
-	-	-	6,100
6,090	3,824	567,539	393,700
-	-	43,662	45,790
-	-	638,939	32,734
-	-	6,010	-
<u>3,193,925</u>	<u>4,856,417</u>	<u>14,682,993</u>	<u>14,870,099</u>
<u>\$ 5,241,992</u>	<u>\$ 6,050,819</u>	<u>\$ 14,682,993</u>	<u>\$ 14,870,099</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Other Operating Revenues  
Years Ended June 30, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Other Operating Revenues		
Medicare and Medicaid electronic health record incentive payment	\$ 1,371,936	\$ -
Grant revenue	124,186	114,414
Cafeteria sales	41,103	14,073
Medical records transcripts	1,041	468
Other	<u>7,687</u>	<u>4,801</u>
 Total other operating revenues	 <u><u>\$ 1,545,953</u></u>	 <u><u>\$ 133,756</u></u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	2013	2012
Nursing Administration		
Salaries and wages	\$ 101,206	\$ 55,108
Supplies and other expenses	71,604	34,621
	<u>172,810</u>	<u>89,729</u>
Adults and Pediatrics		
Salaries and wages	1,101,519	918,032
Supplies and other expenses	334,026	391,310
	<u>1,435,545</u>	<u>1,309,342</u>
Operating Room		
Salaries and wages	1,050	3,610
Supplies and other expenses	930,340	625,615
	<u>931,390</u>	<u>629,225</u>
Anesthesiology		
Supplies and other expenses	367,736	302,288
	<u>367,736</u>	<u>302,288</u>
Radiology		
Salaries and wages	255,964	249,095
Supplies and other expenses	764,620	702,477
	<u>1,020,584</u>	<u>951,572</u>
Nuclear Medicine		
Supplies and other expenses	103,432	88,683
	<u>103,432</u>	<u>88,683</u>
Laboratory		
Salaries and wages	286,437	268,267
Supplies and other expenses	264,148	304,630
	<u>550,585</u>	<u>572,897</u>
Respiratory Therapy		
Salaries and wages	68,242	-
Supplies and other expenses	168,455	626,290
	<u>236,697</u>	<u>626,290</u>
Occupational Therapy		
Salaries and wages	46,766	45,979
Supplies and other expenses	78,129	67,959
	<u>124,895</u>	<u>113,938</u>
Physical Therapy		
Salaries and wages	256,680	259,266
Supplies and other expenses	29,847	60,152
	<u>286,527</u>	<u>319,418</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Speech Therapy		
Supplies and other expenses	\$ 2,965	\$ 7,312
Central Services and Supply		
Salaries and wages	16,184	81,906
Supplies and other expenses	68,595	8,730
	<u>84,779</u>	<u>90,636</u>
Medical Supplies Charged to Patients		
Supplies and other expenses	192,598	150,143
Drugs Charged to Patients		
Salaries and wages	33,198	29,749
Supplies and other expenses	359,870	309,810
	<u>393,068</u>	<u>339,559</u>
Clinic		
Salaries and wages	414,330	380,039
Supplies and other expenses	1,393,043	1,339,241
	<u>1,807,373</u>	<u>1,719,280</u>
Emergency Services		
Salaries and wages	226,944	167,617
Supplies and other expenses	959,147	921,746
	<u>1,186,091</u>	<u>1,089,363</u>
Ambulance		
Salaries and wages	82,695	84,019
Supplies and other expenses	30,111	27,361
	<u>112,806</u>	<u>111,380</u>
Fitness Center		
Salaries and wages	4,178	8,023
Supplies and other expenses	12,958	9,984
	<u>17,136</u>	<u>18,007</u>
Specialty Clinic		
Salaries and wages	11,125	-
Supplies and other expenses	85,960	-
	<u>97,085</u>	<u>-</u>
Electroencephalography		
Salaries and wages	22,129	-
Supplies and other expenses	30,486	197,631
	<u>52,615</u>	<u>197,631</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	2013	2012
Podiatry Surgeon		
Supplies and other expenses	\$ 2,358	\$ -
Medical Records		
Salaries and wages	209,194	228,343
Supplies and other expenses	187,453	133,343
	<u>396,647</u>	<u>361,686</u>
Dietary		
Salaries and wages	112,976	132,984
Supplies and other expenses	292,308	76,972
	<u>405,284</u>	<u>209,956</u>
Operation of Plant		
Salaries and wages	145,703	127,223
Supplies and other expenses	448,500	248,049
	<u>594,203</u>	<u>375,272</u>
Housekeeping		
Salaries and wages	110,015	67,092
Supplies and other expenses	89,606	23,230
	<u>199,621</u>	<u>90,322</u>
Laundry and Linen		
Supplies and other expenses	36,022	26,285
Business Office		
Salaries and wages	65,576	203,342
Supplies and other expenses	258,893	92,379
	<u>324,469</u>	<u>295,721</u>
Patient Registration		
Salaries and wages	118,109	94,952
Supplies and other expenses	41,714	31,994
	<u>159,823</u>	<u>126,946</u>
Administrative Services		
Salaries and wages	295,113	454,014
Supplies and other expenses	1,234,485	926,087
	<u>1,529,598</u>	<u>1,380,101</u>
Unassigned Expenses		
Depreciation and amortization	2,166,957	706,657
Employee benefits	1,220,792	1,240,524
	<u>3,387,749</u>	<u>1,947,181</u>
Total Operating Expenses	<u>\$ 16,212,491</u>	<u>\$ 13,540,163</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
Years Ended June 30, 2013 and 2012

**Analysis of Aging**

Days Since Discharge	June 30, 2013		June 30, 2012	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,832,470	42.37%	\$ 1,432,840	45.25%
31 to 60 days	601,769	13.91%	613,347	19.37%
61 to 90 days	390,819	9.00%	225,031	7.10%
91 days and over	1,499,748	34.68%	895,466	28.28%
	<u>4,324,806</u>	<u>100.0%</u>	<u>3,166,684</u>	<u>100.0%</u>
Less: Allowance for doubtful accounts	714,027		389,578	
Allowance for contractual adjustments	<u>568,051</u>		<u>867,976</u>	
Net	<u>\$ 3,042,728</u>		<u>\$ 1,909,130</u>	

**Analysis of Allowance for Doubtful Accounts**

	2013	2012
Beginning Balance	\$ 389,578	\$ 386,879
Add: Provision for bad debts	520,235	496,683
Recoveries previously written off	<u>132,003</u>	<u>133,426</u>
	652,238	630,109
Less: Accounts written off	<u>(327,789)</u>	<u>(627,410)</u>
Ending Balance	<u>\$ 714,027</u>	<u>\$ 389,578</u>

**Collection Statistics**

	2013	2012
Net accounts receivable - patients	\$ 3,042,728	\$ 1,909,130
Number of days charges outstanding (1)	67	59
Uncollectible accounts (2)	\$ 581,484	\$ 589,301
Percentage of uncollectible accounts to total charges	2.9%	2.8%

(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 Iowa Specialty Hospital - Belmond  
Schedules of Supplies and Prepaid Expenses  
Years Ended June 30, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Supplies		
General	\$ 273,040	\$ 63,521
Pharmacy	73,626	60,618
Lab/Radiology	19,032	19,871
Dietary	<u>18,574</u>	<u>4,753</u>
Total supplies	<u>\$ 384,272</u>	<u>\$ 148,763</u>
Prepaid Expenses		
Insurance	\$ 27,910	\$ 36,712
ER coverage	9,270	46,349
Other	<u>158,272</u>	<u>155,849</u>
Total prepaid expenses	<u>\$ 195,452</u>	<u>\$ 238,910</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2013 and 2012

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	2013	2012
Patient Days		
Acute	729	992
Swing-bed and intermediate	1,150	1,068
Totals	1,879	2,060
Admissions		
Acute	224	336
Swing-bed and intermediate	142	130
Totals	366	466
Average Length of Stay		
Acute	3.3	3.0
Swing-bed and intermediate	8.1	8.2
Beds	22	22
Occupancy Percentage		
Acute, based on 22 beds	9.1%	12.4%
Swing-bed and intermediate, based on 22 beds	14.3%	13.3%



**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 Iowa Specialty Hospital - Belmond  
Belmond, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), as of and for the year ended June 30, 2013 and the related notes to the financial statements and have issued our report thereon dated October 25, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Responses as items II-A-13 and II-B-13 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

### **Hospital's Response to Findings**

The Hospital's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa  
October 25, 2013



**Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

The Board of Trustees  
Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Belmond, Iowa

**Report on Compliance for Each Major Federal Program**

We have audited Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond's (Hospital) 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 the Hospital's major federal programs for the year ended June 30, 2013. The Hospital's major federal programs are identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for the compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Hospital'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## **Report on Internal Control over Compliance**

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 Hospital'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Hospital as of and for the year ended June 30, 2013, and have issued our report thereon dated October 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Eide Bailly LLP*

Dubuque, Iowa  
October 25, 2013

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
United States Department of Agriculture			
Direct Program			
Community Facilities Loans and Grants	10.766		\$ 561,499
ARRA - Community Facilities Loans and Grants Program	10.780		<u>3,427,326</u>
Total United States Department of Agriculture			<u>3,988,825</u>
United States Department of Health and Human Services			
Pass-through program from:			
Iowa Department of Public Health			
Small Rural Hospital Improvement Grant Program	93.301	5882SH06	7,323
National Bioterrorism Hospital Preparedness Program	93.889	5883BHP22	17,169
Pass-through program from:			
Iowa Specialty Hospital - Clarion			
Rural Health Care Services Outreach and Rural Health Network Development Program	93.912	H9CRH22889A0	<u>99,694</u>
Total United States Department of Health and Human Services			<u>124,186</u>
			<u><u>\$ 4,113,011</u></u>

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Hospital 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 financial statements.

The purpose of the SEFA is to present a summary of those activities of the Hospital for the year ended June 30, 2013 which the United States government has financed. For the purpose of the SEFA, federal awards include all federal assistance entered into directly between the Hospital 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 the Hospital, it is not intended to, and does not present, the financial position, results of operations, changes in net position, and cash flows of the Hospital.

**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. The Hospital Revenue Bonds, Series 2010C, are not guaranteed by USDA. During the year ended June 30, 2013, the Hospital drew down the remaining amounts of both the 2010A and the 2010B/C Revenue Bonds Payable.

**Note 3 - Prior Year Expenditures**

Included in the current year's Schedule of Expenditures of Federal Awards are federal expenditures from the United States Department of Agriculture which were expended in prior years. Included in the total expenditures for the United States Department of Agriculture Community Facilities Loans and Grants Program (CFDA 10.766) is \$50,000 of federal expenditures which were expended in prior years.

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

Financial Statements

Type of auditor's report issued Unmodified

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 Unmodified

Any audit findings disclosed that are required to be reported in  
accordance with Circular A-133, Section .510(a) Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.780	ARRA - Community Facilities Loan and Grant Program
10.766	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 Yes

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

**Significant Deficiencies:**

**2013-A Segregation of Duties**

**Criteria** – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization’s assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

**Condition** – Certain employees perform duties that are incompatible.

**Effect** – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. 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.

**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.

**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. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

However, the Hospital 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 Hospital 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 the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital’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)**

**2013-B Preparation of Financial Statements**

**Criteria** – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements, including the Schedule of Expenditures of Federal Awards, 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** – The Hospital 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. In conjunction with completion of our audit, we were requested to draft the financial statements, schedules, and accompanying notes to the financial statements.

**Effect** – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. 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.

**Cause** – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

**Recommendation** – It is the responsibility of Hospital 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. 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, schedules, and related notes internally.

**Response** – 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:**

**2013-IA-A 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.

**2013-IA-B Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**2013-IA-C Business Transactions** – Business transactions between the Hospital and Hospital 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	\$111,337 for insurance coverage
Steve Been, Board Member, part owner of PSI Printing Company	\$45,862 for services

**2013-IA-D Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

**2013-IA-E 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 Hospital’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, 2012 to June 30, 2013

The findings from the 2013 schedule of findings and questioned cost are discussed below.

**Findings Relating to the Financial Statement Audit**

***Finding 2013-A            Segregation of Duties***

The Hospital 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 the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital'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 2013-B            Preparation of Financial Statements***

The Hospital does not have an internal control system designed to provide for the preparation of the annual financial statements, including the Schedule of Expenditures of Federal Awards, 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, schedules, and accompanying notes to the financial statements.

Responsible Individuals:                      Greg Polzin, Chief Financial Officer

Corrective Action Plan:                      Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding schedules and 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, 2013

The Board of Trustees  
Belmond Community Hospital  
d/b/a Iowa Specialty Hospital – Belmond  
Belmond, Iowa

We have audited the financial statements of the primary government of Belmond Community Hospital, d/b/a Iowa Specialty Hospital – Belmond (Hospital), for the year ended June 30, 2013 and have issued our report thereon dated October 25, 2013. 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 May 13, 2013. 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 Hospital are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Hospital 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 were:

*Collectability of Patient Receivables* - Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.

*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 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 misstatement was detected as a result of our audit procedures and has been corrected by management.

	<u>Increase to Net Position</u>
To adjust estimated third-party payor settlements	\$ 177,000

The net effect of the adjustment was to increase net position by \$177,000.

In addition, the following are uncorrected misstatements for which management has determined that their effects are immaterial to the financial statements taken as a whole.

Overstatement of financing costs expense of \$65,000  
Projected understatement of supplies expense of \$22,000

The net effect of the uncorrected misstatements is an understatement of change in net position by \$43,000.

### **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, 2013.

### **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 Hospital’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 Hospital’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

### **Other Matters**

#### ***Supplementary Information***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

#### ***New Accounting Pronouncements***

##### ***Newly Implemented Standards***

During the year ended June 30, 2013, the Hospital implemented the following new accounting standards:

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*: Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Hospital elected to implement this statement early for the year ended June 30, 2013. As a result of the standard, financing costs of approximately \$65,000 were charged to expense for the year ended June 30, 2013. Under previous guidance, the amounts would have been recorded as assets and amortized to expense over of the term of the related financing arrangement.

Due to immateriality, the standard was implemented in fiscal year 2013 rather than retroactively applied to all prior periods presented. The effect of this uncorrected misstatement is an understatement of increase in net position of approximately \$65,000 in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity*: Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. The adoption of this Statement did not have a material impact on the financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*; however, the adoption of this Statement did not have a material impact on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*: Statement No. 63 amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of this Statement did not have a material impact on the financial statements.

### ***Upcoming Accounting Pronouncements***

We recommend that the Hospital review the following upcoming statements and evaluate the potential impact of these statements on the financial statements when implemented.

GASB Statement No. 67, *Financial Reporting for Pension Plans*: Statement No. 67 revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

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

Sincerely,

EIDE BAILLY LLP



Dubuque, Iowa

xc: Ms. Nancy Gabrielson, Administrator/CEO