



Financial Statements  
June 30, 2014 and 2013

**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 2017
Tom Christianson	Vice-Chairperson	December 2015
Steve Been	Secretary	December 2015
Terri Havens	Member	December 2017
Brad Robson	Member	December 2015

Medical Center Officials

Amy McDaniel	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, 2014 and 2013, 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 aggregate remaining fund information of the primary government as of June 30, 2014 and 2013, 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, 2014 and 2013 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, the Budgetary Comparison Information on pages 33 and 34, and the Schedule of Funding Progress for the Retiree Health Plan on page 35 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 24, 2014 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 24, 2014

This discussion and analysis of the financial performance of Iowa Specialty Hospital – Belmond (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2014, 2013, and 2012. 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 comprise 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, 2014 indicates total assets of \$30,079,475, total liabilities of \$25,419,211, and Net Position of \$4,660,264. 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 Balance Sheet at June 30, 2012 indicates total assets of \$28,209,198, total liabilities of \$23,549,820, and Net Position of \$4,659,378.

- The Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2014, indicates total net patient service revenue of \$15,593,693 which increased .8% over the previous fiscal year, total operating expenses of \$17,043,856 which increased 5.1% resulting in a loss from operations of \$791,158. A net nonoperating loss of \$777,674 and capital grants and contributions of \$675,000 brings the decrease in net position to \$893,832. The Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2013, indicates total net patient service revenue of \$15,468,150 which increased 18.0% over the previous fiscal year, total operating expenses of \$16,212,491 which increased 19.7% resulting in a gain from operations of 845,274. A net nonoperating loss of \$766,543 and capital grants and contributions of \$815,987 brings the increase in net position to \$894,718. The Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012, indicates total net patient service revenue of \$13,105,909 which increased 10.2% over the previous fiscal year, total operating expenses of \$13,540,163 which increased 13.4% resulting in a loss from operations of \$254,708. A net nonoperating gain of \$21,737 and capital grants and contributions of \$10,048 brings the decrease in net position to \$222,923.
- The Hospital's current assets exceeded its current liabilities by \$4,262,459 at June 30, 2014 providing a 3.21 current ratio. 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 current assets exceeded its current liabilities by \$613,392 at June 30, 2012 providing a 1.20 current ratio.
- The Hospital's net capital assets at June 30, 2014 were \$23,597,530. The Hospital's net capital assets at June 30, 2013 were \$24,970,339. The Hospital's net capital assets at June 30, 2012 were \$24,428,442.
- The Hospital's total debt decreased by \$800,673 to \$23,900,477 at June 30, 2014. The Hospital's total debt increased by \$3,527,247 to \$24,701,150 at June 30, 2013. The Hospital's total debt increased by \$10,417,110 to \$21,173,903 at June 30, 2012.

### Organization Highlights

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

- Purchased equipment consisting of a defibrillator, hematology analyzer and chemistry analyzer, pain management table, stress test machine, omnicell upgrades, intubation scope and fluoroscopy radiology equipment
- Invested in new technology including additional electronic medical record software and related hardware
- Started a task force to meet stage one of meaningful use for our providers with attestation period to begin July 1, 2014
- Met year two of stage one of meaningful use for the Hospital
- Task force to meet stage two of meaningful use for the Hospital continues to plan with attestation period to begin October 1, 2014
- Signed with the National Rural Accountable Care Organization (NRACO) with start date to begin January 1, 2015
- Started a new ENT service line and making plans to start a Bariatric service line effective July 1, 2014
- Awarded one of the top 100 places to work in Iowa
- Completed our DNV accreditation
- The Belmond Clinic and Hampton Clinic were designated as Rural Health Clinics
- Recognized as one of the Top 20 Critical Access Hospital Best Practice in Patient Satisfaction designation by the National Rural Health Association

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Management's Discussion and Analysis

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**Condensed Financial Statements**

*Balance Sheets*

	June 30, 2014	June 30, 2013	June 30, 2012
Assets			
Current Assets	\$ 6,194,435	\$ 6,741,154	\$ 3,651,500
Assets Limited as to Use or Restricted	180,902	56,982	54,515
Capital Assets, net	23,597,530	24,970,339	24,428,442
Other Assets	106,608	50,892	74,741
	<u>30,079,475</u>	<u>31,819,367</u>	<u>28,209,198</u>
Total assets	<u>\$ 30,079,475</u>	<u>\$ 31,819,367</u>	<u>\$ 28,209,198</u>
Liabilities and Net Position			
Current Liabilities	\$ 1,931,976	\$ 2,548,343	\$ 3,038,108
Long-Term Liabilities	23,487,235	23,716,928	20,511,712
	<u>25,419,211</u>	<u>26,265,271</u>	<u>23,549,820</u>
Total liabilities	<u>25,419,211</u>	<u>26,265,271</u>	<u>23,549,820</u>
Net Position			
Net Investment in capital assets	(302,947)	269,189	3,254,539
Restricted	102,247	-	-
Unrestricted	4,860,964	5,284,907	1,404,839
	<u>4,660,264</u>	<u>5,554,096</u>	<u>4,659,378</u>
Total net position	<u>4,660,264</u>	<u>5,554,096</u>	<u>4,659,378</u>
Total liabilities and net position	<u>\$ 30,079,475</u>	<u>\$ 31,819,367</u>	<u>\$ 28,209,198</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Management's Discussion and Analysis

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

	Year Ended June 30,		
	2014	2013	2012
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 15,593,693	\$ 15,468,150	\$ 13,105,909
Other operating revenues	659,005	1,589,615	179,546
Total operating revenues	<u>16,252,698</u>	<u>17,057,765</u>	<u>13,285,455</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,050,622	5,206,125	5,099,184
Supplies and other expenses	9,646,923	8,839,409	7,734,322
Depreciation and amortization	2,346,311	2,166,957	706,657
Total operating expenses	<u>17,043,856</u>	<u>16,212,491</u>	<u>13,540,163</u>
Operating Income (Loss)	<u>(791,158)</u>	<u>845,274</u>	<u>(254,708)</u>
Nonoperating Revenues (Expenses)			
Investment income	3,061	1,765	2,240
Noncapital grants and contributions received	128,429	176,281	89,788
Interest and amortization expense	(979,972)	(1,003,843)	(83,324)
Build America Bond interest subsidy	57,524	58,273	5,180
Other	13,284	981	7,853
Nonoperating revenues (expenses), net	<u>(777,674)</u>	<u>(766,543)</u>	<u>21,737</u>
Revenues in Excess of (Less Than) Expenses	(1,568,832)	78,731	(232,971)
Capital Grants and Contributions	<u>675,000</u>	<u>815,987</u>	<u>10,048</u>
Change in Net Position	(893,832)	894,718	(222,923)
Net Position, Beginning of Year	<u>5,554,096</u>	<u>4,659,378</u>	<u>4,882,301</u>
Net Position, End of Year	<u>\$ 4,660,264</u>	<u>\$ 5,554,096</u>	<u>\$ 4,659,378</u>

### **Capital Assets**

Iowa Specialty Hospital – Belmond continues to invest in medical equipment that aligns with its strategic plan. During the year, the hospital purchased capital assets in the amount of \$574,692.

### **Long-Term Debt**

At year end, Iowa Specialty Hospital – Belmond had \$23,900,477 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 2015 budget. Of primary consideration in the 2015 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 and quality initiatives
- Technology advances
- Medical Staff issues
- Initiatives to meet meaningful use stages
- 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 123 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>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents - Note 3	\$ 1,945,295	\$ 2,482,904
Receivables		
Patient, net of allowance for uncollectible accounts of \$1,168,000 in 2014 and \$714,000 in 2013	3,267,147	3,042,728
Estimated third-party payor settlements	-	169,000
Affiliated organization - Note 9	158,935	403,651
Other	100,704	63,147
Supplies	520,392	384,272
Prepaid expenses	201,962	195,452
Total current assets	<u>6,194,435</u>	<u>6,741,154</u>
Assets Limited as to Use or Restricted - Note 3		
Internally designated for ambulance	78,655	56,982
Under bond indenture agreement	102,247	-
	<u>180,902</u>	<u>56,982</u>
Capital Assets - Note 4		
Capital assets not being depreciated	436,658	436,658
Depreciable capital assets, net of accumulated depreciation	<u>23,160,872</u>	<u>24,533,681</u>
Total capital assets, net	<u>23,597,530</u>	<u>24,970,339</u>
Other Assets		
Notes receivable	<u>106,608</u>	<u>50,892</u>
Total assets	<u>\$ 30,079,475</u>	<u>\$ 31,819,367</u>

See Notes to Financial Statements

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Balance Sheets  
June 30, 2014 and 2013

	2014	2013
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 443,805	\$ 984,222
Accounts payable		
Trade	601,665	320,264
Affiliated organization - Note 9	122,137	50,624
Estimated third-party payor settlements	173,000	-
Estimated health claims payable - Note 11	53,855	-
Accrued expenses		
Salaries and wages	139,139	119,073
Vacation	216,919	211,458
Payroll taxes and employee benefits	152,605	141,694
Interest	28,851	721,008
Total current liabilities	1,931,976	2,548,343
Other Post Employment Benefit Liability - Note 7	30,563	-
Long-Term Debt, Less Current Maturities - Note 6	23,456,672	23,716,928
Total liabilities	25,419,211	26,265,271
Net Position		
Net investment (deficit) in capital assets	(302,947)	269,189
Restricted		
Expendable for debt service	102,247	-
Unrestricted	4,860,964	5,284,907
Total net position	4,660,264	5,554,096
Total liabilities and net position	\$ 30,079,475	\$ 31,819,367

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$581,434 in 2014 and \$520,235 in 2013) - Note 2	\$ 15,593,693	\$ 15,468,150
Other operating revenues	659,005	1,589,615
Total operating revenues	16,252,698	17,057,765
Operating Expenses		
Salaries and wages	3,998,930	3,985,333
Employee benefits	1,051,692	1,220,792
Supplies and other expenses	9,646,923	8,839,409
Depreciation and amortization	2,346,311	2,166,957
Total operating expenses	17,043,856	16,212,491
Operating Income (Loss)	(791,158)	845,274
Nonoperating Revenues (Expenses)		
Investment income	3,061	1,765
Noncapital grants and contributions received	128,429	176,281
Interest and financing expense	(979,972)	(1,003,843)
Build America Bond interest subsidy	57,524	58,273
Other	13,284	981
Nonoperating revenues (expenses), net	(777,674)	(766,543)
Revenues in Excess of (Less Than) Expenses	(1,568,832)	78,731
Capital Grants and Contributions	675,000	815,987
Change in Net Position	(893,832)	894,718
Net Position, Beginning of Year	5,554,096	4,659,378
Net Position, End of Year	\$ 4,660,264	\$ 5,554,096

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 15,711,274	\$ 14,488,552
Payments of salaries and wages	(3,948,301)	(4,023,437)
Payments of supplies and other expenses	(10,418,104)	(10,304,327)
Other receipts and payments, net	866,151	1,292,175
	2,211,020	1,452,963
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	128,429	176,281
Other income	14,800	1,420
	143,229	177,701
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(574,692)	(2,677,543)
Proceeds from sale of capital assets	11,347	-
Interest payments on long-term debt	(1,672,129)	(756,482)
Principal payments on long-term debt	(1,212,346)	(636,003)
Build America Bond interest subsidy	57,537	63,019
Capital grants and contributions	675,000	815,987
Proceeds from issuance of long-term debt	-	4,163,250
Payment of finance costs	-	(21,600)
Decrease in construction payable	-	(913,698)
	(2,715,283)	36,930
Net Cash provided by (used for) Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Loans and advances on notes receivable	(58,216)	(50,892)
Payments received on notes receivable	2,500	9,311
Investment income	3,061	1,765
	(52,655)	(39,816)
Net Cash used for Investing Activities		
Net Change in Cash and Cash Equivalents	(413,689)	1,627,778
Cash and Cash Equivalents at Beginning of Year	2,539,886	912,108
Cash and Cash Equivalents at End of Year	\$ 2,126,197	\$ 2,539,886

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 1,945,295	\$ 2,482,904
Assets limited as to use or restricted	180,902	56,982
Cash and Cash Equivalents at End of Year	<u>\$ 2,126,197</u>	<u>\$ 2,539,886</u>
	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating income (loss)	\$ (791,158)	\$ 845,274
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,346,311	2,166,957
Provision for bad debts	581,434	520,235
Changes in assets and liabilities		
Patient receivables	(805,853)	(1,653,833)
Estimated third-party payor settlements	342,000	154,000
Other receivables	207,146	(297,440)
Supplies	(136,120)	(235,509)
Prepaid expenses	(6,510)	43,458
Accounts payable	406,769	(157,524)
Accrued expenses	67,001	67,345
Net Cash provided by Operating Activities	<u>\$ 2,211,020</u>	<u>\$ 1,452,963</u>
Supplemental Noncash Capital and Related Financing Activity		
The Hospital entered into a new capital lease obligation in the amount of \$411,673 for new equipment during 2014		

## **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 GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

### **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, 2014. 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 2013 or 2014.

### 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, and funds set aside to meet future debt obligations.

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

### 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, 2014 and 2013.

### Estimated Health Claims Payable

The Hospital provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in current liabilities on the balance sheets, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

## **Operating Revenues and Expenses**

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating 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.

### **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 \$54,331 and \$11,520 for the years ended June 30, 2014 and 2013. The direct and indirect costs related to these foregone charges were approximately \$43,000 and \$10,000 at June 30, 2014 and 2013 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.

### **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*

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*

The 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.

### **Grants and Contributions**

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

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$143,091 and \$86,734 for advertising costs for the years ended June 30, 2014 and 2013.

### **Investment Income**

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

### **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, 2013 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 1% 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, 2012. 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, 2012.

#### **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, Blue Cross, and Medicaid programs accounted for approximately 59%, 20%, and 6%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2014 and 66%, 19% and 4%, respectively, for the year ended June 30, 2013. 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Total Patient Service Revenue	\$ 22,276,032	\$ 19,869,803
Contractual Adjustments:		
Medicare	(2,495,441)	(1,561,971)
Medicaid	(650,575)	(312,822)
Blue Cross	(2,304,526)	(1,499,327)
Other	<u>(650,363)</u>	<u>(507,298)</u>
Total contractual adjustments	<u>(6,100,905)</u>	<u>(3,881,418)</u>
Net Patient Service Revenue	16,175,127	15,988,385
Provision for Bad Debts	<u>(581,434)</u>	<u>(520,235)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 15,593,693</u>	<u>\$ 15,468,150</u>

**Note 3 - Cash and Deposits**

The Hospital's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013 the Hospital's carrying amounts of cash and deposits are as follows:

	2014	2013
Checking and Savings Accounts	\$ 621,361	\$ 157,698
Repurchase Agreement Invested in U.S. Government Bonds and Securities	1,504,836	2,382,188
Total deposits	\$ 2,126,197	\$ 2,539,886

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 1,945,295	\$ 2,482,904
Assets Limited as to Use	180,902	56,982
Total deposits	\$ 2,126,197	\$ 2,539,886

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 years ended June 30, 2014 and 2013 is as follows:

	June 30, 2013				June 30, 2014
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 436,658	\$ -	\$ -	\$ -	\$ 436,658
Capital Assets Being Depreciated:					
Land improvements	2,593,215	\$ 5,346	\$ -	\$ -	2,598,561
Buildings	7,612,629	91,996	-	-	7,704,625
Fixed equipment	15,118,968	24,063	-	-	15,143,031
Major moveable equipment	5,878,938	864,960	123,284	-	6,620,614
Total capital assets being depreciated	31,203,750	\$ 986,365	\$ 123,284	\$ -	32,066,831
Less Accumulated Depreciation for:					
Land improvements	184,982	\$ 141,084	\$ -	\$ -	326,067
Buildings	2,648,868	259,469	-	-	2,908,337
Fixed equipment	1,043,850	990,707	-	-	2,034,557
Major moveable equipment	2,792,369	955,051	110,422	-	3,636,998
Total accumulated depreciation	6,670,069	\$ 2,346,311	\$ 110,422	\$ -	8,905,959
Total Capital Assets Being Depreciated, net	24,533,681				23,160,872
Total Capital Assets, net	\$ 24,970,339				\$ 23,597,530
	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	2,260,382	\$ 2,526,793	\$ -	\$ (4,350,517)	436,658
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	26,701,107	\$ 182,502	\$ 30,376	\$ 4,350,517	31,203,750
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	855,512	29,936	-	2,792,369
Total accumulated depreciation	4,533,047	\$ 2,166,957	\$ 29,936	\$ -	6,670,069
Total Capital Assets Being Depreciated, net	22,168,060				24,533,681
Total Capital Assets, net	\$ 24,428,442				\$ 24,970,339

**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, 2014 and 2013 for all operating leases was \$467,574 and \$417,892. The capitalized leased assets consist of:

	2014	2013
Equipment	\$ 654,201	\$ 242,528
Less Accumulated Amortization	(160,663)	(101,053)
	\$ 493,538	\$ 141,475

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

Years Ending June 30,	Capital Leases	Operating Leases
2015	\$ 93,868	\$ 391,938
2016	86,780	348,660
2017	86,780	208,580
2018	86,780	81,466
2019	86,780	-
Thereafter	12,000	-
Total Minimum Lease Payments	452,988	\$ 1,030,644
Less interest	(38,305)	
Present Value of Minimum Lease Payments - Note 6	\$ 414,683	

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**Note 6 - Long-Term Debt**

A schedule of changes in long-term debt at June 30, 2014 and 2013 is as follows:

	June 30, 2013 Balance	Additions	Payments	June 30, 2014 Balance	Amounts Due Within One Year
Note Payable to Bank, 4.97%, Paid June 2014	\$ 95,898	\$ -	\$ (95,898)	\$ -	\$ -
USDA Direct Loan Revenue Bonds, Series 2010A (A)	21,600,000	-	(512,033)	21,087,967	276,911
Bank Loan Guaranteed by USDA, Series 2010B/C (B)	2,400,000	-	(42,444)	2,357,556	45,784
Capital Lease Obligation, 3.18%, Due July 2014 - Note 5	90,456	-	(83,386)	7,070	7,070
Capital Lease Obligation, 3.50%, Due June 2019 - Note 5	-	357,673	-	357,673	66,624
Capital Lease Obligation, 3.33%, Due November 2020 - Note 5	-	54,000	(4,060)	49,940	7,145
Note Payable to Bank, 3.38%, Due July 2014	514,796	-	(474,525)	40,271	40,271
<b>Total Long-Term Debt</b>	<b><u>\$ 24,701,150</u></b>	<b><u>\$ 411,673</u></b>	<b><u>\$ (1,212,346)</u></b>	23,900,477	<b><u>\$ 443,805</u></b>
Less Current Maturities				(443,805)	
Long-Term Debt, Less Current Maturities				<b><u>\$ 23,456,672</u></b>	
	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 2014	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
<b>Total Long-Term Debt</b>	<b><u>\$ 21,173,903</u></b>	<b><u>\$ 4,163,250</u></b>	<b><u>\$ (636,003)</u></b>	24,701,150	<b><u>\$ 984,222</u></b>
Less Current Maturities				(984,222)	
Long-Term Debt, Less Current Maturities				<b><u>\$ 23,716,928</u></b>	

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(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 had 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. The loan agreement states that there is a \$1,115,424 Mortgage Reserve Fund Requirement that must be met by the end of year 10. The amount added to Mortgage Reserve Fund at June 30, 2014 was \$102,247.

(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 had 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.

Long-term debt maturities are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 443,805	\$ 962,289	\$ 1,406,094
2016	410,297	948,312	1,358,609
2017	429,264	929,327	1,358,591
2018	446,722	911,851	1,358,573
2019	464,896	893,661	1,358,557
2020-2024	2,160,390	4,210,225	6,370,615
2025-2029	2,641,021	3,717,059	6,358,080
2030-2034	3,243,682	3,113,748	6,357,430
2035-2039	3,984,627	2,372,009	6,356,636
2040-2044	4,285,622	1,509,595	5,795,217
2045-2049	4,909,421	599,961	5,509,382
2050-2054	480,730	5,267	485,997
Total	<u>\$ 23,900,477</u>	<u>\$ 20,173,304</u>	<u>\$ 44,073,781</u>

A summary of interest cost and rebates on borrowed funds during the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Interest Cost:		
Capitalized as part of construction project	\$ -	\$ 31,750
Recognized as interest expense	979,972	916,813
Total	\$ 979,972	\$ 948,563
Interest Rebate:		
Capitalized as part of construction project (Build America Bond interest rebate)	\$ -	\$ 4,747
Recognized as interest subsidy income	57,524	58,273
Total	\$ 57,524	\$ 63,020

During the year ended June 30, 2013, interest and financing expense on the statement of revenues, expenses, and changes in net position included \$87,030 of financing costs.

**Note 7 - Other Postemployment Benefits (OPEB)**

**Plan Description** – The Hospital operates a single-employer retiree benefit plan which provides medical and prescription benefits to retired employees and their dependents. There are 88 active and 1 retired members in the Plan. Participants must be age 55 or older at retirement. The Plan does not issue a stand-alone financial report.

The medical coverage, which is a self-funded medical plan, is administered by a third party administrator, Health Partners. Retirees under age 65 pay the same premium as active employees, which results in an implicit rate subsidy and an OPEB liability.

**Funding Policy** – The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation** – The Hospital’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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The following table shows the components of the Hospital's annual OPEB cost for the year ended June 30, 2014 the amount actually contributed to the Plan and changes in the Hospital's net OPEB obligation:

	2014
Annual Required Contribution	\$ 10,658
Interest on Net OPEB Obligation	-
Adjustments to Annual Required Contribution	19,905
Annual OPEB cost	30,563
Contributions Made	-
Increase in net OPEB obligation	30,563
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	\$ 30,563

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2013. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Hospital did not contribute to the medical plan; however, the Hospital has recorded the net OPEB obligation of \$30,563, which reflects the full obligation.

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2014 and 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 10,658	100%	\$ 30,563

**Funded Status and Funding Progress** – As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$30,563, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$30,563. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,375,362 and the ratio of the UAAL to covered payroll was 0.7%. As of June 30, 2014, there were no trust fund assets.

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the employer and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2013 actuarial valuation date, the Projected Unit Credit with linear proration to decrement cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual health care trend rate is 10%. The ultimate health care trend rate is 5%. The health care trend rate is reduced 1% each year until reaching the 5% ultimate medical trend rate. An inflation rate of 3% is assumed for the purpose of this computation.

Mortality rates are from the 2009 United States Life Tables.

Projected claim costs of the medical plan are \$604 for single and \$1,143 for family, under the low deductible option and \$522 for single and \$976 for family under the high deductible option, per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 8 - 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 5.95% of their annual covered salary, and the Hospital is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Plan members were required to contribute 5.78% and 5.38% of their annual covered salary, and the Hospital was required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$346,445, \$331,933, and \$319,000 equal to the required contributions for each year.

## **Note 9 - Related Organizations**

### **Master Affiliation Agreement**

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 \$5,913,227 and \$5,493,029 for the years ended June 30, 2014 and 2013.

### **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, 2014 and 2013 were \$101,499 and \$230,037.

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

As of June 30, 2014 and 2013, the Hospital's records reflect a receivable from Iowa Specialty Hospital - Clarion in the amount of \$158,935 and \$403,651, for various services and distributions related to these agreements which are included in other receivables on the balance sheets. As of June 30, 2014 and 2013, the Hospital's records also reflect a payable to Iowa Specialty Hospital - Clarion in the amount \$122,137 and \$50,624, 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 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, 2014. The Hospital received \$675,000 installments in 2014 and 2013, which are included in the capital grants and contributions in the statement of revenues, expenses and changes in net position. The final installment of \$650,000 is expected to be received in 2015. Support has come from the Foundation, a private trust, and the community.

The Foundation made total contributions to the Hospital of \$676,000 and \$725,000 during the fiscal years ended June 30, 2014 and June 30, 2013.

**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, 2014 and 2013 the Auxiliary made contributions to the Hospital of \$8,309 and \$5,194. These amounts are included in noncapital grants and contributions received on the statement of revenues, expenses, and changes in net position.

**Note 10 - 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, 2014 and 2013 was as follows:

	2014	2013
Medicare	34%	41%
Medicaid	6%	5%
Commercial Insurance	31%	30%
Other Third-Party Payors and Patients	29%	24%
	100%	100%

**Note 11 - 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.

**Self-Funded Employee Health Insurance Plan**

During 2014, the Hospital started a self-funded employee health insurance plan covering substantially all employees. The plan is responsible to pay all administration expenses and benefits up to the reinsurance limits and has a stop-loss limit of \$75,000. A liability of \$53,855 has been recorded to recognize the estimated incurred but not reported claims outstanding at June 30, 2014. Total expenses related to the Hospital's employee health insurance plan was \$231,975 for the year ended June 30, 2014.

**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 12 - 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 13 - 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 payment related to Medicare EHR. The Hospital recognized the entire Medicare EHR payment as revenue in the year ended June 30, 2013. During the year ended June 30, 2014, the Hospital received \$138,495 as an additional lump sum payment related to qualifying assets for meaningful use. The Hospital recognized the entire amount as revenue for the year ended June 30, 2014.

The Hospital also recognized revenue of \$59,400 for the years ended June 30, 2014 and June 30, 2013 related to Medicaid EHR incentive payments received. The total \$118,800 received to date represents 80% 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 included in the other operating revenue in the accompanying financial statements.

### **Note 14 - Subsequent Events**

The Hospital has evaluated subsequent events through October 24, 2014 the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2014

**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, 2014

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	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Net Patient Service Revenue	\$ 15,593,693	\$ 17,434,293	\$ (1,840,600)
Other Operating Revenues	<u>659,005</u>	<u>352,790</u>	<u>306,215</u>
Total Operating Revenues	16,252,698	17,787,083	(1,534,385)
Operating Expenses	(17,043,856)	(17,661,869)	618,013
Net Nonoperating Revenues (Expenses)	(777,674)	(121,268)	(656,406)
Capital Grants and Contributions	<u>675,000</u>	<u>-</u>	<u>675,000</u>
Change in Net Position	<u>\$ (893,832)</u>	<u>\$ 3,946</u>	<u>\$ (897,778)</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, 2014.

For the year ended June 30, 2014 the Hospital's expenditures did not exceed the amount budgeted.

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedule of Funding Progress for the Retiree Health Plan  
June 30, 2014

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Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
2014	07/01/13	-	\$ 30,563	\$ 30,563	0.0%	\$ 4,375,362	0.7%

**Other Postemployment Benefits (OPEB)**

See Note 7 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.



Supplementary Information  
June 30, 2014 and 2013

**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, 2014 and 2013, and our report thereon dated October 24, 2014, 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, and supplies and prepaid expenses 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The Board of Trustees and Hospital Officials; schedules of patient receivables, allowance for doubtful accounts, collection statistics; and schedules of statistical information, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Dubuque, Iowa  
October 24, 2014

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	Total	
	2014	2013
Patient Care Services		
Adults and pediatrics	\$ 710,731	\$ 961,079
Swing-bed	1,016,362	1,086,988
Subtotal	<u>1,727,093</u>	<u>2,048,067</u>
Other Professional Services		
Operating room	3,336,011	1,732,715
Anesthesiology	731,264	733,279
Radiology	3,560,046	3,246,950
Nuclear medicine	303,223	491,291
Laboratory	3,187,258	2,733,478
Respiratory therapy	665,005	876,761
Electroencephalography	294,999	244,621
Occupational therapy	297,817	285,986
Physical therapy	843,484	844,892
Cardiac rehab	175,639	195,380
Speech therapy	35,655	31,662
Medical and surgical supplies	469,855	374,205
Implant supplies	236,179	161,521
Pharmacy	1,127,155	1,321,295
Emergency services	1,231,752	1,218,548
Observation	262,427	200,456
Ambulance	705,066	573,629
Specialty clinic	607,972	638,939
Belmond Clinic	2,008,683	1,912,400
Hampton Clinic	223,085	15,248
Clear Lake Clinic	300,695	-
Subtotal	<u>20,603,270</u>	<u>17,833,256</u>
Total	22,330,363	19,881,323
Charity care	(54,331)	(11,520)
Total patient service revenue	<u>22,276,032</u>	<u>19,869,803</u>
Contractual Adjustments		
Medicare	(2,495,441)	(1,561,971)
Medicaid	(650,575)	(312,822)
Blue Cross	(2,304,526)	(1,499,327)
Other	(650,363)	(507,298)
Total contractual adjustments	<u>(6,100,905)</u>	<u>(3,881,418)</u>
Net Patient Service Revenue	16,175,127	15,988,385
Provision for Bad Debts	(581,434)	(520,235)
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 15,593,693</u>	<u>\$ 15,468,150</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2014 and 2013

Inpatient		Outpatient	
2014	2013	2014	2013
\$ 710,731	\$ 961,079	\$ -	\$ -
1,016,362	1,086,988	-	-
<u>1,727,093</u>	<u>2,048,067</u>	<u>-</u>	<u>-</u>
480,353	287,077	2,855,658	1,445,638
82,906	100,803	648,358	632,476
126,131	225,861	3,433,915	3,021,089
-	5,162	303,223	486,129
380,338	444,228	2,806,920	2,289,250
557,832	644,882	107,173	231,879
1,859	670	293,140	243,951
158,284	161,992	139,533	123,994
190,743	205,495	652,741	639,397
2,586	137	173,053	195,243
4,994	9,487	30,661	22,175
251,301	167,877	218,554	206,328
55,096	47,220	181,083	114,301
513,708	720,089	613,447	601,206
-	-	1,231,752	1,218,548
-	-	262,427	200,456
1,055	6,090	704,011	567,539
-	-	607,972	638,939
130,476	166,855	1,878,207	1,745,545
-	-	223,085	15,248
-	-	300,695	-
<u>2,937,662</u>	<u>3,193,925</u>	<u>17,665,608</u>	<u>14,639,331</u>
<u>\$ 4,664,755</u>	<u>\$ 5,241,992</u>	<u>\$ 17,665,608</u>	<u>\$ 14,639,331</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Other Operating Revenues  
Years Ended June 30, 2014 and 2013

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	2014	2013
Other Operating Revenues		
Grant revenue	\$ 254,353	\$ 124,186
Medicare and Medicaid electronic health record incentive payment	197,895	1,371,936
Cafeteria sales	82,172	41,103
Rebates	53,932	-
Fitness center	53,520	43,662
Medical records transcripts	700	1,041
Other	16,433	7,687
Total other operating revenues	\$ 659,005	\$ 1,589,615

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

	2014	2013
Nursing Administration		
Salaries and wages	\$ 118,008	\$ 101,206
Supplies and other expenses	60,022	71,604
	<u>178,030</u>	<u>172,810</u>
Adults and Pediatrics		
Salaries and wages	1,077,756	1,101,519
Supplies and other expenses	382,079	334,026
	<u>1,459,835</u>	<u>1,435,545</u>
Operating Room		
Salaries and wages	2,285	1,050
Supplies and other expenses	1,413,824	932,698
	<u>1,416,109</u>	<u>933,748</u>
Anesthesiology		
Supplies and other expenses	274,585	367,736
	<u>274,585</u>	<u>367,736</u>
Radiology		
Salaries and wages	253,265	255,964
Supplies and other expenses	773,453	764,620
	<u>1,026,718</u>	<u>1,020,584</u>
Nuclear Medicine		
Supplies and other expenses	61,856	103,432
	<u>61,856</u>	<u>103,432</u>
Laboratory		
Salaries and wages	190,335	286,437
Supplies and other expenses	475,894	264,148
	<u>666,229</u>	<u>550,585</u>
Respiratory Therapy		
Salaries and wages	27,369	68,242
Supplies and other expenses	199,678	168,455
	<u>227,047</u>	<u>236,697</u>
Occupational Therapy		
Salaries and wages	44,588	46,766
Supplies and other expenses	73,897	78,129
	<u>118,485</u>	<u>124,895</u>
Physical Therapy		
Salaries and wages	244,057	256,680
Supplies and other expenses	13,171	29,847
	<u>257,228</u>	<u>286,527</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Speech Therapy		
Supplies and other expenses	\$ 8,854	\$ 2,965
Central Services and Supply		
Salaries and wages	13,397	16,184
Supplies and other expenses	58,579	68,595
	<u>71,976</u>	<u>84,779</u>
Medical Supplies Charged to Patients		
Supplies and other expenses	239,179	192,598
Drugs Charged to Patients		
Salaries and wages	34,668	33,198
Supplies and other expenses	371,323	359,870
	<u>405,991</u>	<u>393,068</u>
Clinic		
Salaries and wages	503,304	414,330
Supplies and other expenses	1,387,960	1,393,043
	<u>1,891,264</u>	<u>1,807,373</u>
Emergency Services		
Salaries and wages	226,731	226,944
Supplies and other expenses	915,769	959,147
	<u>1,142,500</u>	<u>1,186,091</u>
Ambulance		
Salaries and wages	79,113	82,695
Supplies and other expenses	96,277	30,111
	<u>175,390</u>	<u>112,806</u>
Fitness Center		
Salaries and wages	4,552	4,178
Supplies and other expenses	17,676	12,958
	<u>22,228</u>	<u>17,136</u>
Specialty Clinic		
Salaries and wages	35,704	11,125
Supplies and other expenses	72,173	85,960
	<u>107,877</u>	<u>97,085</u>
Electroencephalography		
Salaries and wages	21,281	22,129
Supplies and other expenses	29,004	30,486
	<u>50,285</u>	<u>52,615</u>

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

	2014	2013
Medical Records		
Salaries and wages	\$ 140,057	\$ 209,194
Supplies and other expenses	183,760	187,453
	<u>323,817</u>	<u>396,647</u>
Dietary		
Salaries and wages	67,591	112,976
Supplies and other expenses	328,842	292,308
	<u>396,433</u>	<u>405,284</u>
Operation of Plant		
Salaries and wages	159,838	145,703
Supplies and other expenses	416,564	448,500
	<u>576,402</u>	<u>594,203</u>
Housekeeping		
Salaries and wages	96,202	110,015
Supplies and other expenses	115,441	89,606
	<u>211,643</u>	<u>199,621</u>
Laundry and Linen		
Supplies and other expenses	46,134	36,022
	<u>46,134</u>	<u>36,022</u>
Business Office		
Salaries and wages	83,170	65,576
Supplies and other expenses	281,498	258,893
	<u>364,668</u>	<u>324,469</u>
Patient Registration		
Salaries and wages	123,587	118,109
Supplies and other expenses	27,255	41,714
	<u>150,842</u>	<u>159,823</u>
Administrative Services		
Salaries and wages	452,072	295,113
Supplies and other expenses	1,322,176	1,234,485
	<u>1,774,248</u>	<u>1,529,598</u>
Unassigned Expenses		
Depreciation and amortization	2,346,311	2,166,957
Employee benefits	1,051,692	1,220,792
	<u>3,398,003</u>	<u>3,387,749</u>
Total Operating Expenses	<u>\$ 17,043,856</u>	<u>\$ 16,212,491</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, 2014 and 2013

**Analysis of Aging**

Days Since Discharge	June 30, 2014		June 30, 2013	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,480,891	46.03%	\$ 1,832,470	42.37%
31 to 60 days	644,923	11.97%	601,769	13.91%
61 to 90 days	633,263	11.75%	390,819	9.04%
91 days and over	1,630,734	30.25%	1,499,748	34.68%
	5,389,811	100.0%	4,324,806	100.0%
Less: Allowance for doubtful accounts	(1,168,466)		(714,027)	
Allowance for contractual adjustments	(954,198)		(568,051)	
Net	\$ 3,267,147		\$ 3,042,728	

**Analysis of Allowance for Doubtful Accounts**

	2014	2013
Beginning Balance	\$ 714,027	\$ 389,578
Add: Provision for bad debts	581,434	520,235
Recoveries previously written off	124,617	132,003
	706,051	652,238
Less: Accounts written off	(251,612)	(327,789)
Ending Balance	\$ 1,168,466	\$ 714,027

**Collection Statistics**

	2014	2013
Net accounts receivable - patients	\$ 3,267,147	\$ 3,042,728
Number of days charges outstanding (1)	65	67
Uncollectible accounts (2)	\$ 677,463	\$ 581,484
Percentage of uncollectible accounts to total charges	3.0%	2.9%

- (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, 2014 and 2013

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	2014	2013
Supplies		
General	\$ 388,050	\$ 273,040
Pharmacy	66,756	73,626
Lab/Radiology	56,513	19,032
Dietary	9,073	18,574
Total supplies	\$ 520,392	\$ 384,272
 Prepaid Expenses		
Insurance	\$ 41,335	\$ 27,910
ER coverage	-	9,270
Other	160,627	158,272
Total prepaid expenses	\$ 201,962	\$ 195,452

Belmond Community Hospital  
d/b/a Iowa Specialty Hospital - Belmond  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2014 and 2013

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	2014	2013
Patient Days		
Acute	527	729
Swing-bed and intermediate	1,002	1,150
Totals	1,529	1,879
Discharges		
Acute	187	224
Swing-bed and intermediate	105	142
Totals	292	366
Average Length of Stay		
Acute	2.82	3.25
Swing-bed and intermediate	9.54	8.10
Beds	22	22
Occupancy Percentage		
Acute, based on 22 beds	6.56%	9.08%
Swing-bed and intermediate, based on 22 beds	12.48%	14.32%



**Independent Auditor’s 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, 2014, and the related notes to the financial statements and have issued our report thereon dated October 24, 2014.

**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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 2014-A and 2014-B 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 24, 2014

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

**Significant Deficiencies:**

**2014-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 I: Findings Related to the Financial Statements: (continued)**

**2014-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, 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 II: Other Findings Related to Required Statutory Reporting:**

**2014-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.

**2014-IA-B Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**2014-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	\$95,757 for insurance coverage
Steve Been, Board Member, part owner of PSI Printing Company	\$36,420 for services

**2014-IA-D Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

**2014-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.



CPAs & BUSINESS ADVISORS

October 24, 2014

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, 2014 and have issued our report thereon dated October 24, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 4, 2014. 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 2014. 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 as follows:

*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.

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	\$ 156,000

The net effect of the adjustment was to increase net position by \$156,000.

In addition, the following is an uncorrected misstatement for which management has determined that the effect was immaterial to the financial statements taken as a whole.

Projected overstatement of supplies expense of \$22,000.

The net effect of the uncorrected misstatement is an understatement of change in net position by \$22,000.

### **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 24, 2014.

### **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.

### *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.

In 2012, the Governmental Accounting Standards Board (GASB) released accounting standards *Financial Reporting for Pension Plans*, Statement No. 67 and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statements No. 67 and 68) for public pension plans and participating employers.

GASB Statement No. 67 revised existing guidance for the financial reports of most public pension plans. The provisions in Statement No. 67 were effective for financial statements for periods beginning after June 15, 2013.

Statement No. 68 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. 68 are effective for fiscal years beginning after June 15, 2014.

In general, GASB Statement No. 68 will require a net pension liability to be recognized on the balance sheet of government employers, such as the Hospital, whom are participating in a public pension plan to account for the employer's share of any pension liability that exceeds the pension plan's net assets available for paying benefits. An employer's pension liability, along with other information required for footnote disclosure and supplemental information accompanying the financial statements, will be calculated at the public pension plan level and forwarded to the individual employers. However, it is still the employer's responsibility to ensure that all necessary information is timely obtained and included in the employer's financial statements.

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

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

Dubuque, Iowa

xc: Ms. Amy McDaniel, Administrator/CEO