



Financial Statements
June 30, 2016 and 2015

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

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Tom Christianson	Chairperson	December 2019
Steve Been	Vice-Chairperson	December 2019
Brad Robson	Secretary	December 2019
Terri Havens	Member	December 2017
Troy Watne	Member	December 2017
 <u>Medical Center Officials</u>		
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 Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), which comprise the statements of net position as of June 30, 2016 and 2015, 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 statements of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended 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 present fairly the financial position of aggregate remaining fund information of the primary government as of June 30, 2015, or the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond as of June 30, 2016 and 2015, and the results of its operations, changes in net position, and cash flows 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 Management's Discussion and Analysis on pages 5 through 9, the Budgetary Comparison Information on pages 37 and 38, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, the Schedule of the Hospital Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 39 through 43 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB 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 18, 2016 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 Bailly LLP".

Dubuque, Iowa
October 18, 2016

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, 2016, 2015, and 2014. 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 statements of net position; 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 statements of net position include all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital creditors (liabilities). The statements of net position 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 Statement of Net Position 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 deferred outflows of resources and liabilities and deferred inflows of resources - 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 Statement of Net Position at June 30, 2016 indicates total assets of \$30,997,536, total deferred outflows of \$1,042,428, total liabilities of \$29,226,402 total deferred inflows of \$308,512, and Net Position of \$2,505,050. The Statement of Net Position at June 30, 2015 indicates total assets of \$30,133,643, total liabilities of \$28,083,846, and Net Position of \$1,633,000. The Statement of Net Position 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 Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016, indicates total net patient service revenue of \$24,962,245 which increased 20.5% over the previous fiscal year, other operating revenues of \$456,841, total operating expenses of \$23,746,661 which increased 12.4% resulting in income from operations of \$1,672,425. A net nonoperating loss of \$859,314 and capital grants and contributions of \$58,939 brings the increase in net position to \$872,050.
- The Hospital's current assets exceeded its current liabilities by \$7,002,446 at June 30, 2016 providing a 3.36 current ratio.
- The Hospital's net capital assets at June 30, 2016 were \$20,456,374.
- The Hospital's total debt decreased by \$9,250 to \$23,400,546 at June 30, 2016.
- The Hospital's net position increased \$872,050 from June 30, 2015 to June 30, 2016.

Organization Highlights

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

- Purchased equipment consisting of a CT injector Upgrade, Exam Table, Defibrillator, and Ambulance
- Invested in new technology including additional electronic medical record software and related hardware as well as interfaces.
- Went live on a new electronic medical record system as well as accounting system
- Attested for meaningful use for many eligible providers
- Attested for stage two, year one of meaningful use for the Hospital
- Task force to meet stage two, year two of meaningful use for the Hospital continues to plan with a 365 day attestation period to end December 31, 2016
- Continued our membership with Caravan Health, a rural ACO. We changed partners this year and are now grouped with all Iowa facilities.
- Our Bariatric Service Line became ASMBS certified
- We were designated under the Blue Distinction Centers for Bariatric Surgery program
- Expanded our mental health program to include a Psychologist and a Nurse Practitioner specializing in psychiatric medications
- Continue to work with DNV on ISO9001 as well as maintaining our accreditation
- Awarded five Guardian of Excellence Awards from Press Ganey for inpatient, outpatient, emergency room patient satisfaction as well as HCAHPS and employee engagement
- Received 5 Star rating given by CMS Hospital Compare

Condensed Financial Statements

Statements of Net Position

	June 30, 2016	June 30, 2015	June 30, 2014
Assets and Deferred Outflows of Resources			
Current Assets	\$ 9,963,680	\$ 7,925,377	\$ 6,194,435
Noncurrent Cash and Investments	399,952	315,787	180,902
Capital Assets, Net	20,456,374	21,746,950	23,597,530
Other Assets	<u>177,530</u>	<u>145,529</u>	<u>106,608</u>
Total assets	<u>30,997,536</u>	<u>30,133,643</u>	<u>30,079,475</u>
Deferred Outflows of Resources	<u>1,042,428</u>	<u>589,159</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 32,039,964</u>	<u>\$ 30,722,802</u>	<u>\$ 30,079,475</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities	\$ 2,961,234	\$ 2,606,834	\$ 1,931,976
Long-Term Liabilities	<u>26,265,168</u>	<u>25,477,012</u>	<u>23,487,235</u>
Total liabilities	<u>29,226,402</u>	<u>28,083,846</u>	<u>25,419,211</u>
Deferred Inflows of Resources	<u>308,512</u>	<u>1,005,956</u>	<u>-</u>
Net Position			
Net investment (deficit) in capital assets	(2,944,172)	(1,662,846)	(302,947)
Restricted	328,688	213,790	102,247
Unrestricted	<u>5,120,534</u>	<u>3,082,056</u>	<u>4,860,964</u>
Total net position	<u>2,505,050</u>	<u>1,633,000</u>	<u>4,660,264</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 32,039,964</u>	<u>\$ 30,722,802</u>	<u>\$ 30,079,475</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,		
	2016	2015	2014
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 24,962,245	\$ 20,708,636	\$ 15,593,693
Other operating revenues	456,841	531,131	682,214
Total operating revenues	<u>25,419,086</u>	<u>21,239,767</u>	<u>16,275,907</u>
Operating Expenses			
Salaries, wages, and employee benefits	6,874,070	5,828,019	5,050,622
Supplies and other expenses	14,700,937	12,800,779	9,646,923
Depreciation and amortization	2,171,654	2,500,248	2,346,311
Total operating expenses	<u>23,746,661</u>	<u>21,129,046</u>	<u>17,043,856</u>
Operating Income (Loss)	<u>1,672,425</u>	<u>110,721</u>	<u>(767,949)</u>
Nonoperating Revenues (Expenses)			
Investment income	11,465	4,764	3,061
Noncapital grants and contributions received	84,781	104,266	120,020
Interest and amortization expense	(959,033)	(963,581)	(979,972)
Build America Bond interest subsidy	54,374	57,052	57,524
Other	(50,901)	-	(1,516)
Nonoperating revenues (expenses), net	<u>(859,314)</u>	<u>(797,499)</u>	<u>(800,883)</u>
Revenues in Excess of (Less Than) Expenses	813,111	(686,778)	(1,568,832)
Capital Grants and Contributions	58,939	774,322	675,000
Change in Net Position	<u>872,050</u>	<u>87,544</u>	<u>(893,832)</u>
Net Position, Beginning of Year, as Previously Stated	1,633,000	4,660,264	5,554,096
Restatement	<u>-</u>	<u>(3,114,808)</u>	<u>-</u>
Net Position Beginning of Year, as Restated	<u>1,633,000</u>	<u>1,545,456</u>	<u>5,554,096</u>
Net Position, End of Year	<u>\$ 2,505,050</u>	<u>\$ 1,633,000</u>	<u>\$ 4,660,264</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 or financed capital assets in the amount of \$945,257.

Long-Term Debt

At year end, Iowa Specialty Hospital – Belmond had \$23,400,546 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 2016 budget. Of primary consideration in the 2016 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
- 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
- Impact of new service lines

Summary

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 165 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 1st Street SE
Belmond, IA 50421

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents - Note 3	\$ 4,961,990	\$ 4,118,569
Receivables		
Patient, net of allowance for uncollectible accounts of \$1,003,000 in 2016 and \$951,000 in 2015	3,852,032	2,806,987
Affiliated organization - Note 9	144,737	83,954
Other	215,541	121,789
Supplies	656,286	627,386
Prepaid expenses	133,094	166,692
	9,963,680	7,925,377
Noncurrent Cash and Investments - Note 3		
Internally designated for ambulance Under bond indenture agreement	71,264	101,997
	328,688	213,790
Total noncurrent cash and investments	399,952	315,787
Capital Assets - Note 4		
Capital assets not being depreciated	485,040	449,568
Depreciable capital assets, net of accumulated depreciation	19,971,334	21,297,382
	20,456,374	21,746,950
Other Assets		
Notes receivable	159,059	145,529
Investments	18,471	-
	177,530	145,529
Total other assets	177,530	145,529
Total assets	30,997,536	30,133,643
Deferred Outflows of Resources		
Pension related deferred outflows - Note 5	1,042,428	589,159
	1,042,428	589,159
Total assets and deferred outflows of resources	\$ 32,039,964	\$ 30,722,802

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 574,760	\$ 403,035
Accounts payable		
Trade	917,847	652,011
Affiliated organization - Note 9	157,521	31,479
Estimated third-party payor settlements	601,120	832,000
Accrued expenses		
Salaries and wages	107,023	179,238
Vacation	251,924	217,191
Payroll taxes and employee benefits	209,768	174,859
Estimated health claims payable - Note 11	114,283	89,653
Interest	26,988	27,368
	2,961,234	2,606,834
Total current liabilities	2,961,234	2,606,834
Noncurrent Liabilities		
Long-term debt, less current maturities - Note 7	22,825,786	23,006,761
Net pension liability - Note 5	3,408,819	2,439,688
Net other post-employment benefit liability - Note 8	30,563	30,563
	26,265,168	25,477,012
Total noncurrent liabilities	26,265,168	25,477,012
Total liabilities	29,226,402	28,083,846
Deferred Inflows of Resources		
Pension related deferred inflows - Note 5	308,512	1,005,956
	308,512	1,005,956
Net Position		
Net investment (deficit) in capital assets	(2,944,172)	(1,662,846)
Restricted		
Expendable for debt service	328,688	213,790
Unrestricted	5,120,534	3,082,056
	2,505,050	1,633,000
Total net position	2,505,050	1,633,000
Total liabilities, deferred inflows of resources, and net position	\$ 32,039,964	\$ 30,722,802

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$793,015 in 2016 and \$762,339 in 2015) - Note 2	\$ 24,962,245	\$ 20,708,636
Other operating revenues	456,841	531,131
Total operating revenues	25,419,086	21,239,767
Operating Expenses		
Salaries and wages	5,458,793	4,591,422
Employee benefits	1,415,277	1,236,597
Supplies and other expenses	14,700,937	12,800,779
Depreciation and amortization	2,171,654	2,500,248
Total operating expenses	23,746,661	21,129,046
Operating Income	1,672,425	110,721
Nonoperating Revenues (Expenses)		
Investment income	11,465	4,764
Noncapital grants and contributions received	84,781	104,266
Interest expense	(959,033)	(963,581)
Build America Bond interest subsidy	54,374	57,052
Loss on disposal of capital assets	(50,901)	-
Nonoperating revenues (expenses), net	(859,314)	(797,499)
Revenues in Excess of (Less Than) Expenses	813,111	(686,778)
Capital Grants and Contributions	58,939	774,322
Change in Net Position	872,050	87,544
Net Position, Beginning of Year	1,633,000	1,545,456
Net Position, End of Year	\$ 2,505,050	\$ 1,633,000

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 23,686,320	\$ 21,827,796
Payments to suppliers and contractors	(16,035,565)	(14,349,410)
Payments to and behalf of employees	(5,531,008)	(4,551,323)
Other receipts and payments, net	300,001	584,605
Net Cash from Operating Activities	<u>2,419,748</u>	<u>3,511,668</u>
Noncapital Financing Activities		
Noncapital grants and contributions received	<u>84,781</u>	<u>104,266</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(305,728)	(649,669)
Interest payments on long-term debt	(959,413)	(965,064)
Principal payments on long-term debt	(438,633)	(490,681)
Build America Bond interest subsidy	56,679	57,474
Capital grants and contributions	58,939	774,322
Proceeds from sale of capital assets	<u>13,278</u>	<u>-</u>
Net Cash used for Capital and Capital Related Financing Activities	<u>(1,574,878)</u>	<u>(1,273,618)</u>
Investing Activities		
Loans and advances on notes receivable	(43,532)	(40,075)
Payments received on notes receivable	30,002	1,154
Investment income	<u>11,465</u>	<u>4,764</u>
Net Cash used for Investing Activities	<u>(2,065)</u>	<u>(34,157)</u>
Net Change in Cash and Cash Equivalents	927,586	2,308,159
Cash and Cash Equivalents at Beginning of Year	<u>4,434,356</u>	<u>2,126,197</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,361,942</u>	<u>\$ 4,434,356</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 4,961,990	\$ 4,118,569
Cash and cash equivalents in noncurrent restricted asset	399,952	315,787
Total cash and cash equivalents	\$ 5,361,942	\$ 4,434,356
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating income (loss)	\$ 1,672,425	\$ 110,721
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	2,171,654	2,500,248
Provision for bad debts	793,015	762,339
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Patient receivables	(1,838,060)	(302,179)
Estimated third-party payor settlements	(230,880)	659,000
Other receivables	(156,840)	53,474
Supplies	(28,900)	(106,994)
Prepaid expenses	33,598	35,270
Accounts payable	187,891	(4,514)
Accrued expenses	(2,573)	62,625
Net pension liability	969,131	(1,063,764)
Deferred outflows of resources	(453,269)	(200,514)
Deferred inflows of resources	(697,444)	1,005,956
Net Cash from Operating Activities	\$ 2,419,748	\$ 3,511,668
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
The Hospital entered into new capital lease obligations in the amount of \$429,383 for new equipment during 2016		

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

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.

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. The GASB has set forth criteria to be considered in determining financial accountability.

The Hospital has no component units which meet the GASB criteria.

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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Hospital uses enterprise fund accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

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

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 an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding noncurrent cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

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, 2015 to June 30, 2016. 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 2015 or 2016.

Supplies

Supplies are valued at the lower of average cost or market, using the first-in, first-out method.

Noncurrent Cash and Investments

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.

Investment Income

Interest on cash and deposits is included in nonoperating revenues, when earned.

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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 statements of net position based on pay rates that are in effect at June 30, 2016 and 2015.

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 statements of net position, 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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, including depreciation expense and excluding interest cost.

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 \$24,000 and \$10,000 for the years ended June 30, 2016 and 2015. The direct and indirect costs related to these foregone charges were approximately \$15,000 and \$7,000 at June 30, 2016 and 2015 based on average ratio of cost to gross charges.

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

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

Grants and Contributions

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

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 demonstrate meaningful use of 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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$329,332 and \$331,653 for advertising costs for the years ended June 30, 2016 and 2015.

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 acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid

Prior to April 1, 2016, inpatient, outpatient, and clinic 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, 2014. As of April 1, 2016, inpatient, outpatient, and clinic services rendered to Medicaid program beneficiaries are primarily based on a prospective payment methodology through Medicaid Managed Care Organizations.

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.

Concentration of net revenues by major payor accounted for the following percentages of the Hospital's patient and resident service revenues for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	31%	43%
Medicaid	10%	7%
Blue Cross	42%	31%
Other Commercial	14%	17%
Private Pay	3%	2%
	100%	100%

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.

Note 3 - Deposits and Investments

At June 30, 2016 and 2015 the Hospital's carrying amounts of deposits and investments are as follows:

	2016	2015
Checking and Savings Accounts	\$ 676,226	\$ 621,839
Repurchase Agreement Invested in U.S. Government Bonds and Securities	4,685,716	3,812,517
Total deposits	\$ 5,361,942	\$ 4,434,356

Included in the following balance sheet captions:

	2016	2015
Cash and Cash Equivalents	\$ 4,961,990	\$ 4,118,569
Noncurrent Cash and Investments	399,952	315,787
Total deposits	\$ 5,361,942	\$ 4,434,356

Deposits – Custodial Credit Risk

The Hospital's deposits in banks at June 30, 2016 and 2015 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.

Credit Risk

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.

Interest Rate Risk

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.

Note 4 - Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 is as follows:

	June 30, 2015				June 30, 2016
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 441,258	\$ 3,700	\$ -	\$ -	\$ 444,958
Construction in progress	8,310	66,886	-	(35,114)	40,082
Total capital assets not being depreciated	<u>449,568</u>	<u>\$ 70,586</u>	<u>\$ -</u>	<u>\$ (35,114)</u>	<u>485,040</u>
Capital Assets Being Depreciated:					
Land improvements	2,598,561	\$ -	\$ -	\$ -	2,598,561
Buildings	7,856,774	66,253	-	8,310	7,931,337
Fixed equipment	15,157,116	35,856	-	26,804	15,219,776
Major moveable equipment	7,091,139	772,562	196,689	-	7,667,012
Total capital assets being depreciated	<u>32,703,590</u>	<u>\$ 874,671</u>	<u>\$ 196,689</u>	<u>\$ 35,114</u>	<u>33,416,686</u>
Less Accumulated Depreciation for:					
Land improvements	467,287	\$ 141,217	\$ -	\$ -	608,505
Buildings	3,178,059	213,596	-	-	3,391,655
Fixed equipment	3,027,026	998,229	-	-	4,025,255
Major moveable equipment	4,733,836	818,612	132,511	-	5,419,937
Total accumulated depreciation	<u>11,406,208</u>	<u>\$ 2,171,654</u>	<u>\$ 132,511</u>	<u>\$ -</u>	<u>13,445,352</u>
Total Capital Assets Being Depreciated, net	<u>21,297,382</u>				<u>19,971,334</u>
Total Capital Assets, net	<u>\$ 21,746,950</u>				<u>\$ 20,456,374</u>

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	June 30, 2014				June 30, 2015
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 436,658	\$ 4,600	\$ -	\$ -	\$ 441,258
Construction in progress	9,713	8,310	-	(9,713)	8,310
Total capital assets not being depreciated	<u>446,371</u>	<u>\$ 12,910</u>	<u>\$ -</u>	<u>\$ (9,713)</u>	<u>449,568</u>
Capital Assets Being Depreciated:					
Land improvements	2,598,561	\$ -	\$ -	\$ -	2,598,561
Buildings	7,704,625	152,149	-	-	7,856,774
Fixed equipment	15,143,031	14,085	-	-	15,157,116
Major moveable equipment	6,610,901	470,525	-	9,713	7,091,139
Total capital assets being depreciated	<u>32,057,118</u>	<u>\$ 636,759</u>	<u>\$ -</u>	<u>\$ 9,713</u>	<u>32,703,590</u>
Less Accumulated Depreciation for:					
Land improvements	326,067	\$ 141,219	\$ -	\$ -	467,287
Buildings	2,908,337	269,722	-	-	3,178,059
Fixed equipment	2,034,557	992,469	-	-	3,027,026
Major moveable equipment	3,636,998	1,096,838	-	-	4,733,836
Total accumulated depreciation	<u>8,905,959</u>	<u>\$ 2,500,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,406,208</u>
Total Capital Assets Being Depreciated, net	<u>23,151,159</u>				<u>21,297,382</u>
Total Capital Assets, net	<u>\$ 23,597,530</u>				<u>\$ 21,746,950</u>

Note 5 - Pension Plan

Plan Description – Iowa Public Employees’ Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012, which use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

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In fiscal years 2016 and 2015, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% for a total rate of 14.88%. In fiscal years 2016 and 2015, pursuant to the required rate, protection occupation members contributed 6.56% and 6.76% of covered payroll and the Hospital contributed 9.84% and 10.14% of covered payroll for total rates of 16.40% and 16.90%.

The Hospital's contributions to IPERS for the years ended June 30, 2016, 2015, and 2014 were \$558,729, \$449,696, and \$346,445.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016 and 2015, the Hospital reported a liability of \$3,408,819 and \$2,439,688 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that dates. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's collective fund proportion was 0.068998%, which was an increase of 0.007481 from its proportion measured as of June 30, 2014 of 0.061517%.

For the years ended June 30, 2016, 2015, and 2014, the Hospital recognized pension expense of \$288,926, \$142,402, and \$346,445. At June 30, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Actual Experience	\$ 51,974	\$ 5,994	\$ 27,078	\$ 4,671
Changes of Assumptions	94,712	92	109,958	112
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	300,237	-	1,001,173
Changes in Proportion and Differences between Hospital Contributions and Proportionate Share of Contributions	337,013	2,189	2,427	-
Hospital Contributions Subsequent to the Measurement Date	558,729	-	449,696	-
Total	<u>\$ 1,042,428</u>	<u>\$ 308,512</u>	<u>\$ 589,159</u>	<u>\$ 1,005,956</u>

The \$558,729 in 2016 and \$449,696 in 2015 reported as deferred outflows of resources related to the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	2016	2015
2016	\$ -	\$ (218,826)
2017	(25,503)	(218,826)
2018	(25,503)	(218,826)
2019	(25,503)	(218,826)
2020	229,759	8,811
2021	21,937	-
	<u>\$ 175,187</u>	<u>\$ (866,493)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Salary Increases (effective June 30, 2016)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-Term Investment Rate of Return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan, investment expense, including inflation
Wage Growth (effective June 30, 1996)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core-Plus Fixed Income	28%	2.04%
Domestic Equity	24%	6.29%
International Equity	16%	6.75%
Private Equity/Debt	11%	11.32%
Real Estate	8%	3.48%
Credit Opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other Real Assets	2%	6.24%
Cash	1%	(0.71%)
	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Hospital’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Hospital's Proportionate Share of the Net Pension Liability at June 30, 2016	\$ 6,113,130	\$ 3,408,819	\$ 1,126,372
Hospital's Proportionate Share of the Net Pension Liability at June 30, 2015	\$ 4,762,374	\$ 2,439,688	\$ 479,256

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payables to the Pension Plan – At June 30, 2016 and 2015, the Hospital reported payables to the defined benefit pension plan of \$115,029 and \$92,028 for legally required employer contributions which had been withheld from employee wages but not yet remitted to IPERS, which is included in accrued payroll taxes and employee benefits on the statements of net position.

Note 6 - Lease Obligations

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, 2016 and 2015 for all operating leases was \$328,003 and \$498,685. The capitalized leased assets consist of:

	2016	2015
Equipment	\$ 963,064	\$ 357,673
Less Accumulated Amortization	(165,847)	(77,496)
	\$ 797,217	\$ 280,177

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

Years Ending June 30,	Capital Leases	Operating Leases
2017	\$ 246,468	\$ 344,768
2018	246,469	217,654
2019	153,323	98,171
Total Minimum Lease Payments	646,260	\$ 660,593
Less interest	(35,857)	
Present Value of Minimum Lease Payments - Note 7	\$ 610,403	

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Note 7 - Long-Term Debt

A schedule of changes in long-term debt at June 30, 2016 and 2015 is as follows:

	June 30, 2015			June 30, 2016	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
USDA Direct Loan Revenue					
Bonds, Series 2010A (A)	\$ 20,811,057	\$ -	\$ (288,193)	\$ 20,522,864	\$ 299,841
Bank Loan Guaranteed by					
USDA, Series 2010B/C (B)	2,313,349	-	(46,070)	2,267,279	50,167
Capital Lease Obligation, 3.50%,					
Due June 2019 - Note 6	285,390	-	(69,195)	216,195	71,656
Lease Finance Group, various rates					
between 4.05% to 4.844%					
Due December 2018 - Note 6	-	429,383	(35,175)	394,208	153,096
Total Long-Term Debt	<u>\$ 23,409,796</u>	<u>\$ 429,383</u>	<u>\$ (438,633)</u>	23,400,546	<u>\$ 574,760</u>
Less Current Maturities				<u>(574,760)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 22,825,786</u>	
	June 30, 2014			June 30, 2015	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
USDA Direct Loan Revenue					
Bonds, Series 2010A (A)	\$ 21,087,967	\$ -	\$ (276,910)	\$ 20,811,057	\$ 285,910
Bank Loan Guaranteed by					
USDA, Series 2010B/C (B)	2,357,556	-	(44,207)	2,313,349	47,931
Capital Lease Obligation, 3.18%,					
Due July 2014 - Note 6	7,070	-	(7,070)	-	-
Capital Lease Obligation, 3.50%,					
Due June 2019 - Note 6	357,673	-	(72,283)	285,390	69,194
Capital Lease Obligation, 3.33%,					
Due November 2020 - Note 6	49,940	-	(49,940)	-	-
Note Payable to Bank, 3.38%					
Due July 2014	40,271	-	(40,271)	-	-
Total Long-Term Debt	<u>\$ 23,900,477</u>	<u>\$ -</u>	<u>\$ (490,681)</u>	23,409,796	<u>\$ 403,035</u>
Less Current Maturities				<u>(403,035)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 23,006,761</u>	

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Notes to Financial Statements
June 30, 2016 and 2015

(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. Principal and interest payments at 4.00% are payable annually in August through 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 Mortgage Reserve Fund at June 30, 2016 and 2015 was \$328,688 and \$213,790.

(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). Principal and interest payments at 4.75% are payable monthly through August 2050. 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.

Long-term debt maturities are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 574,760	\$ 943,912	\$ 1,518,672
2018	599,321	919,352	1,518,673
2019	530,918	894,609	1,425,527
2020	393,692	878,512	1,272,204
2021	412,327	859,877	1,272,204
2022-2026	2,333,577	4,027,443	6,361,020
2027-2031	2,865,703	3,495,317	6,361,020
2032-2036	3,518,533	2,842,487	6,361,020
2037-2041	4,244,710	2,037,388	6,282,098
2042-2046	4,409,400	1,167,720	5,577,120
2047-2051	3,517,605	244,966	3,762,571
Total	<u>\$ 23,400,546</u>	<u>\$ 18,311,583</u>	<u>\$ 41,712,129</u>

Note 8 - 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.

The following table shows the components of the Hospital’s annual OPEB cost for the years ended June 30, 2016 and 2015 the amount actually contributed to the Plan and changes in the Hospital’s net OPEB obligation:

	2016	2015
Annual Required Contribution	\$ 10,658	\$ 10,658
Interest on Net OPEB Obligation	-	-
Adjustments to Annual Required Contribution	(10,658)	(10,658)
Annual OPEB cost	-	-
Contributions Made	-	-
Increase in net OPEB obligation	-	-
Net OPEB Obligation, Beginning of Year	30,563	30,563
Net OPEB Obligation, End of Year	\$ 30,563	\$ 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 years ended June 30, 2016 and 2015.

For the years ended June 30, 2016 and 2015, 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, 2016 and 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 10,658	100%	\$ 30,563
2015	\$ 10,658	100%	\$ 30,563
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, 2016, 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 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 \$8,033,458 and \$7,338,694 for the years ended June 30, 2016 and 2015 are included within operating expenses on the statements of revenues, expenses, and changes in net position.

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, 2016 and 2015 were \$29,106 and \$28,434.

Due from and to Affiliated Organization

As of June 30, 2016 and 2015, the Hospital's records reflect a receivable from Iowa Specialty Hospital - Clarion in the amount of \$144,737 and \$83,954, for various services and distributions related to these agreements which are included in other receivables on the statements of net position. As of June 30, 2016 and 2015, the Hospital's records also reflect a payable to Iowa Specialty Hospital - Clarion in the amount \$157,521 and \$31,479, for the various services and distributions related to these agreements which are included in accounts payable on the statements of net position.

Belmond Community Hospital Foundation

Belmond Community Hospital Foundation (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. During the year ended June 30, 2015, the Hospital received the final contribution from the Foundation of \$650,000, which is included in the capital grants and contributions in the statements of revenues, expenses and changes in net position. The Foundation made total contributions to the Hospital of \$54,000 and \$722,000 during the fiscal years ended June 30, 2016 and 2015. These amounts are included in capital grants and contributions and noncapital grants and contributions received on the statements of revenues, expenses, and changes in net position.

Belmond Community Hospital Auxiliary

The Belmond Community Hospital Auxiliary (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, 2016 and 2015 the Auxiliary made contributions to the Hospital of \$8,489 and \$4,672. 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, 2016 and 2015 was as follows:

	2016	2015
Medicare	20%	24%
Medicaid	12%	6%
Commercial Insurance	43%	40%
Other Third-Party Payors and Patients	25%	30%
	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

The Hospital has 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 \$114,283 and \$89,653 has been recorded to recognize the estimated incurred but not reported claims outstanding for the years ended June 30, 2016 and 2015. Total expenses related to the Hospital's employee health insurance plan was \$552,575 and \$595,914 for the years ended June 30, 2016 and 2015.

	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2016	\$ 89,653	\$ 741,632	\$ (717,002)	\$ 114,283
2015	\$ 53,855	\$ 771,554	\$ (735,756)	\$ 89,653

Excess Liability Umbrella Insurance

The Hospital also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$6 million per occurrence and an annual aggregate limit of \$6 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 has attested as a meaningful user of Electronic Health Records (EHR). During the years ended June 30, 2016 and 2015, the Hospital has received \$2,997 and \$36,083 in incentive payments for assets that qualify for meaningful use related to Medicare EHR.

During the years ended June 30, 2016 and 2015, the Hospital also received 0\$ and \$29,700 in incentive payments from the State of Iowa Medicaid EHR incentive program. The Hospital has received a total of \$148,500, which represents 100% of the potential benefit to be received from the State of Iowa Medicaid EHR incentive program. During the years ended June 30, 2016 and 2015, the Hospital also received \$7,840 and \$63,750 related to Medicaid EHR incentives for hospital physicians. These incentive payments are included in the other operating revenue in the accompanying financial statements.



Required Supplementary Information
June 30, 2016

**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 and Actual (Accrual Basis)
Required Supplementary Information
Year Ended June 30, 2016

	Actual Accrual Basis	Adopted Budget	Variance Favorable (Unfavorable)
Net Patient Service Revenue	\$ 24,962,245	\$ 23,172,923	\$ 1,789,322
Other Operating Revenues	456,841	658,832	(201,991)
Total Operating Revenues	25,419,086	23,831,755	1,587,331
Operating Expenses	(23,746,661)	(23,273,586)	(473,075)
Net Nonoperating Revenues (Expenses)	(859,314)	(888,110)	28,796
Capital Grants and Contributions	58,939	119,500	(60,561)
Change in Net Position	872,050	(210,441)	<u>\$ 1,082,491</u>
Balance Beginning of Year	<u>1,633,000</u>	<u>1,633,000</u>	
Balance End of Year	<u>\$ 2,505,050</u>	<u>\$ 1,422,559</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, 2016.

For the year ended June 30, 2016 the Hospital's expenditures did exceed the amount budgeted.

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
Year Ended June 30, 2016

	2016	2015
Hospital's Proportion of the Net Pension Liability	0.068998%	0.061517%
Hospital's Proportionate Share of the Net Pension Liability	\$ 3,408,819	\$ 2,439,688
Hospital's Covered-Employee Payroll	\$ 5,004,105	\$ 3,879,563
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	68.12%	62.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.19%	87.61%

The amounts reported are measured as of June 30, 2015 and 2014 (measurement dates).

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedule of Hospital Contributions – Last 10 Fiscal Years
Required Supplementary Information
Ten Years Ended June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 558,729	\$ 449,696	\$ 346,445	\$ 331,933
Contributions in Relation to the Statutorily Required Contribution	<u>(558,729)</u>	<u>(449,696)</u>	<u>(346,445)</u>	<u>(331,933)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's Covered-Employee Payroll	\$ 6,232,622	\$ 5,004,105	\$ 3,879,563	\$ 3,828,524
Contributions as a Percentage of Covered-Employee Payroll	8.96%	8.99%	8.93%	8.67%

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedule of Hospital Contributions – Last 10 Fiscal Years
Required Supplementary Information
Ten Years Ended June 30, 2016

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 319,000	\$ 254,015	\$ 216,874	\$ 184,617	\$ 162,490	\$ 111,410
<u>(319,000)</u>	<u>(254,015)</u>	<u>(216,874)</u>	<u>(184,617)</u>	<u>(162,490)</u>	<u>(111,410)</u>
<u>\$ -</u>					
\$ 3,952,912	\$ 3,654,892	\$ 3,261,263	\$ 2,907,354	\$ 2,685,785	\$ 1,937,565
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

Changes of benefit terms: Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions: The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the Unfunded Actuarial Liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
Years ended June 30, 2016, 2015 and 2014

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)
2016	07/01/13	-	\$ 30,563	\$ 30,563	0.0%	\$ 5,004,105	0.6%
2015	07/01/13	-	\$ 30,563	\$ 30,563	0.0%	\$ 4,375,362	0.7%
2014	07/01/13	-	\$ 30,563	\$ 30,563	0.0%	\$ 4,375,362	0.7%

Other Postemployment Benefits (OPEB)

See Note 8 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, 2016 and 2015

**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 Belmond Community Hospital, d/b/a Iowa Specialty Hospital - Belmond (Hospital), as of and for the years ended June 30, 2016 and 2015, and our report thereon dated October 18, 2016, 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 taken 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, and 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.

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

Dubuque, Iowa
October 18, 2016

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Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

	Total	
	2016	2015
Patient Care Services		
Adults and pediatrics	\$ 1,254,153	\$ 1,051,732
Swing-bed	845,216	905,334
Subtotal	<u>2,099,369</u>	<u>1,957,066</u>
Other Professional Services		
Operating room	11,581,088	7,359,957
Anesthesiology	2,083,063	1,510,096
Radiology	4,368,457	4,285,058
Nuclear medicine	401,009	331,161
Laboratory	4,434,727	3,766,370
Respiratory therapy	240,982	319,649
Electroencephalography	179,321	198,910
Occupational therapy	277,858	325,544
Physical therapy	1,108,322	811,570
Cardiac rehab	189,782	169,058
Speech therapy	44,514	28,213
Central Supply	3,845,166	2,349,258
Implant supplies	188,593	219,554
Pharmacy	1,958,346	1,573,889
Emergency services	1,330,955	1,320,230
Observation	240,210	342,247
Ambulance	902,683	808,524
Specialty Clinic	376,153	562,357
Belmond Clinic	3,105,126	2,408,947
Hampton Clinic	426,416	331,795
Clear Lake Clinic	477,694	420,323
West Des Moines	55,127	-
Subtotal	<u>37,815,592</u>	<u>29,442,710</u>
Total	39,914,961	31,399,776
Charity care	<u>(24,108)</u>	<u>(10,202)</u>
Total patient service revenue	<u>39,890,853</u>	<u>31,389,574</u>
Contractual Adjustments		
Medicare	(5,090,472)	(3,307,730)
Medicaid	(1,762,478)	(1,083,887)
Blue Cross	(5,694,603)	(4,166,065)
Other	<u>(1,588,040)</u>	<u>(1,360,917)</u>
Total contractual adjustments	<u>(14,135,593)</u>	<u>(9,918,599)</u>
Net Patient Service Revenue	25,755,260	21,470,975
Provision for Bad Debts	<u>(793,015)</u>	<u>(762,339)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 24,962,245</u>	<u>\$ 20,708,636</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

Inpatient		Outpatient	
2016	2015	2016	2015
\$ 1,254,153	\$ 1,051,732	\$ -	\$ -
845,216	905,334	-	-
<u>2,099,369</u>	<u>1,957,066</u>	<u>-</u>	<u>-</u>
6,347,625	2,278,827	5,233,463	5,081,130
941,263	525,099	1,141,800	984,997
362,741	226,097	4,005,716	4,058,961
1,124	-	399,885	331,161
788,661	554,155	3,646,066	3,212,215
170,850	210,161	70,132	109,488
-	-	179,321	198,910
117,994	138,438	159,864	187,106
138,728	163,074	969,594	648,496
943	630	188,839	168,428
18,925	6,774	25,589	21,439
3,509,790	1,935,944	335,376	413,314
74,933	60,512	113,660	159,042
1,150,911	708,605	807,435	865,284
44	-	1,330,911	1,320,230
-	-	240,210	342,247
-	-	902,683	808,524
-	-	376,153	562,357
128,136	137,189	2,976,990	2,271,758
-	-	426,416	331,795
1,133	-	476,561	420,323
-	-	55,127	-
<u>13,753,801</u>	<u>6,945,505</u>	<u>24,061,791</u>	<u>22,497,205</u>
<u>\$ 15,853,170</u>	<u>\$ 8,902,571</u>	<u>\$ 24,061,791</u>	<u>\$ 22,497,205</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Other Operating Revenues
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Other Operating Revenues		
Grant and contribution revenue	\$ 176,086	\$ 73,659
340B revenue	160,726	236,188
Cafeteria sales	103,347	84,692
Medical records transcripts	774	1,724
Medicare and Medicaid EHR incentive payments	10,837	129,533
Other	<u>5,071</u>	<u>5,335</u>
 Total other operating revenues	 <u>\$ 456,841</u>	 <u>\$ 531,131</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Nursing Administration		
Salaries and wages	\$ 140,206	\$ 126,223
Supplies and other expenses	65,576	46,826
	<u>205,782</u>	<u>173,049</u>
Adults and Pediatrics		
Salaries and wages	1,054,555	1,027,651
Supplies and other expenses	839,583	474,269
	<u>1,894,138</u>	<u>1,501,920</u>
Operating Room		
Salaries and wages	427,226	317,493
Supplies and other expenses	3,470,796	3,126,278
	<u>3,898,022</u>	<u>3,443,771</u>
Anesthesiology		
Salaries and wages	68,582	-
Supplies and other expenses	508,034	362,157
	<u>576,616</u>	<u>362,157</u>
Radiology		
Salaries and wages	179,442	259,844
Supplies and other expenses	779,130	672,039
	<u>958,572</u>	<u>931,883</u>
Nuclear Medicine		
Supplies and other expenses	84,325	66,582
	<u>84,325</u>	<u>66,582</u>
Laboratory		
Salaries and wages	222,311	238,591
Supplies and other expenses	581,070	585,799
	<u>803,381</u>	<u>824,390</u>
Respiratory Therapy		
Salaries and wages	23,127	24,295
Supplies and other expenses	178,018	169,778
	<u>201,145</u>	<u>194,073</u>
Occupational Therapy		
Salaries and wages	49,325	44,218
Supplies and other expenses	69,360	75,899
	<u>118,685</u>	<u>120,117</u>
Physical Therapy		
Salaries and wages	121,702	195,277
Supplies and other expenses	150,276	14,576
	<u>271,978</u>	<u>209,853</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Speech Therapy		
Supplies and other expenses	\$ 11,560	\$ 11,653
Central Services and Supply		
Salaries and wages	15,308	13,930
Supplies and other expenses	65,353	61,231
	<u>80,661</u>	<u>75,161</u>
Medical Supplies Charged to Patients		
Supplies and other expenses	1,861,274	1,268,576
Drugs Charged to Patients		
Salaries and wages	122,961	58,943
Supplies and other expenses	459,752	500,433
	<u>582,713</u>	<u>559,376</u>
Clinic		
Salaries and wages	1,114,709	606,474
Supplies and other expenses	1,727,786	1,577,311
	<u>2,842,495</u>	<u>2,183,785</u>
Emergency Services		
Salaries and wages	264,026	244,646
Supplies and other expenses	1,057,374	1,028,890
	<u>1,321,400</u>	<u>1,273,536</u>
Ambulance		
Salaries and wages	67,192	58,923
Supplies and other expenses	80,566	89,852
	<u>147,758</u>	<u>148,775</u>
Specialty Clinic		
Salaries and wages	64,177	32,293
Supplies and other expenses	117,416	82,067
	<u>181,593</u>	<u>114,360</u>
Electroencephalography		
Salaries and wages	1,546	14,389
Supplies and other expenses	37,241	21,021
	<u>38,787</u>	<u>35,410</u>
Medical Records		
Salaries and wages	106,244	133,283
Supplies and other expenses	130,826	129,262
	<u>237,070</u>	<u>262,545</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Dietary		
Salaries and wages	\$ 192,303	\$ 142,074
Supplies and other expenses	168,461	195,977
	<u>360,764</u>	<u>338,051</u>
Operation of Plant		
Salaries and wages	219,312	171,981
Supplies and other expenses	460,186	432,106
	<u>679,498</u>	<u>604,087</u>
Housekeeping		
Salaries and wages	145,474	134,563
Supplies and other expenses	57,769	55,698
	<u>203,243</u>	<u>190,261</u>
Laundry and Linen		
Supplies and other expenses	65,721	56,873
	<u>65,721</u>	<u>56,873</u>
Business Office		
Salaries and wages	178,674	139,962
Supplies and other expenses	220,055	217,101
	<u>398,729</u>	<u>357,063</u>
Patient Registration		
Salaries and wages	153,034	143,256
Supplies and other expenses	46,613	29,007
	<u>199,647</u>	<u>172,263</u>
Administrative Services		
Salaries and wages	527,357	463,113
Supplies and other expenses	1,406,816	1,449,518
	<u>1,934,173</u>	<u>1,912,631</u>
Unassigned Expenses		
Depreciation and amortization	2,171,654	2,500,248
Employee benefits	1,415,277	1,236,597
	<u>3,586,931</u>	<u>3,736,845</u>
Total Operating Expenses	<u>\$ 23,746,661</u>	<u>\$ 21,129,046</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, 2016 and 2015

Analysis of Aging

Days Since Discharge	June 30, 2016		June 30, 2015	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 3,572,246	56.25%	\$ 2,624,583	55.29%
31 to 60 days	1,181,975	18.61%	502,066	10.58%
61 to 90 days	260,155	4.10%	259,475	5.47%
91 days and over	1,335,997	21.04%	1,361,104	28.66%
	<u>6,350,373</u>	<u>100.00%</u>	<u>4,747,228</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	(1,002,595)		(951,136)	
Allowance for contractual adjustments	<u>(1,495,746)</u>		<u>(989,105)</u>	
Net	<u>\$ 3,852,032</u>		<u>\$ 2,806,987</u>	

Analysis of Allowance for Doubtful Accounts

	2016	2015
Beginning Balance	\$ 951,136	\$ 1,168,466
Add: Provision for bad debts	793,015	762,339
Recoveries previously written off	255,052	169,055
	<u>1,048,067</u>	<u>931,394</u>
Less: Accounts written off	<u>(996,608)</u>	<u>(1,148,724)</u>
Ending Balance	<u>\$ 1,002,595</u>	<u>\$ 951,136</u>

Collection Statistics

	2016	2015
Net accounts receivable - patients	\$ 3,852,032	\$ 2,806,987
Number of days charges outstanding (1)	57	46
Uncollectible accounts (2)	\$ 879,420	\$ 821,958
Percentage of uncollectible accounts to total charges	2.2%	2.6%

- (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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplies		
General	\$ 477,991	\$ 493,945
Pharmacy	84,182	73,126
Lab/Radiology	81,518	50,772
Dietary	12,595	9,543
	<u> </u>	<u> </u>
Total supplies	<u>\$ 656,286</u>	<u>\$ 627,386</u>
Prepaid Expenses		
Insurance	\$ 405	\$ 778
Other	132,689	165,914
	<u> </u>	<u> </u>
Total prepaid expenses	<u>\$ 133,094</u>	<u>\$ 166,692</u>

Belmond Community Hospital
d/b/a Iowa Specialty Hospital - Belmond
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2016 and 2015

	2016	2015
Patient Days		
Acute	919	771
Swing-bed and intermediate	749	839
Totals	1,668	1,610
Discharges		
Acute	476	337
Swing-bed and intermediate	72	110
Totals	548	447
Average Length of Stay		
Acute	1.93	2.29
Swing-bed and intermediate	10.40	7.63
Beds	22	22
Occupancy Percentage		
Acute, based on 22 beds	11.44%	9.60%
Swing-bed and intermediate, based on 22 beds	9.33%	10.45%

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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016.

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.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies (2016-A and 2016-B).

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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transaction that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hospital's Response to Findings

The Hospital's responses 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 18, 2016

Part I: Findings Related to the Financial Statements:

2016-A Segregation of Duties

Significant Deficiency

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.

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

Effect: 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.

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.

Views of Responsible Officials: 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)

2016-B Preparation of Financial Statements

Significant Deficiency

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.

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.

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.

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.

Views of Responsible Officials: 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:

2016-IA-A Questionable Expenditures: The Hospital’s disbursements during the year ended June 30, 2016 exceeded the amount budgeted by \$473,075.

Recommendation: The budget should have been amended before disbursements were allowed to exceed the budget.

Views of Responsible Officials: The budget will be amended in the future, if applicable.

2016-IA-B Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

2016-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>
Steve Been, Board Member, part owner of PSI Printing Company	\$62,228 for services
Tom Christianson, Board Member, part owner of Jaspersen Insurance	\$2,000 for insurance coverage

2016-IA-D Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

2016-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.