



**FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER**

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**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Lans Flickinger	Chairperson	2004
Rudolph S. Leytze	Vice-Chairperson	2008
Ben Riensche	Secretary	2006
Susan White	Treasurer	2006
Connie Brown	Trustee	2004
	<u>Health Center Officials</u>	
Robert J. Richard	Chief Executive Officer	
Ronald Timpe	Associate Administrator	



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

We have audited the accompanying balance sheets of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, effective July 1, 2003, **People's Memorial Hospital, d/b/a Buchanan County Health Center**, adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. As a result, the Health Center changed its accounting policy related to financial statement presentation to comply with the provisions of GASB Statements No. 34 and No. 37. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on page 23 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion it.

*Erin Baerly* LLP

Dubuque, Iowa  
August 27, 2004



## **Management's Discussion and Analysis June 30, 2004**

As management of People's Memorial Hospital of Buchanan County (Buchanan County Health Center), we offer readers a narrative overview and analysis of the financial activity of our facility. We encourage readers to consider the information presented along with the subsequent audited financial statements.

### **Financial Highlights:**

- The Health Center's current assets exceeded its current liabilities by \$859,900 at June 30, 2004.
- The Health Center recorded an excess of revenues over expenses for fiscal year ending June 30, 2004 amounting to \$514,275.
- Net days in accounts receivable was 47 at June 30, 2004.
- Total patient days amount to  
1,599-Acute Care (11.4% increase)  
526- SNF Care (Constant)  
16,730 LTC (15.2% decline)

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

The audited financial statements from Eide Bailly, LLP included the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, Statements of Cash Flows, Notes to Financial Statements, and Supplementary Schedules.

The Balance Sheet at June 30, 2004 indicates total assets of \$ 10,095,371, total liabilities amounting to \$4,846,249 and net assets of \$5,249,122. Total current assets were \$2,565,725 and current liabilities \$1,705,825 resulting in a current ratio of 1.50.

The Statements of Revenues, Expenses, and Changes in Net Assets indicate total operating revenues of \$11,169,350 (14.7% increase from prior year), and total expenses of \$11,294,030 resulting in a loss from operations \$124,680. A net non-operating gain of \$638,955 brings the revenues in excess of expenses to \$514,275.

The reader is encouraged to review all of the Notes to the Financial Statements included in this report. The supplementary schedules provided give the reader additional detail than is disclosed in the Statements of Revenues, Expenses, and Changes in Net Assets. The revenues and expenses are detailed by department and compared with the previous year.

### **New Capital Project:**

Construction began approximately July 7, 2004 on a 15,000 square foot Physical Therapy/Rehab and Wellness addition to the current Health Center building. The total anticipated cost of this project will be approximately \$ 3.1 million and is anticipated to open in early Spring 2005. This new facility will have several additional therapy treatment rooms, lap swimming pool, therapy pool, along with numerous therapy exercise equipment. The medical staff, health center staff along with the Buchanan County community is looking forward to the completion of this project.

### **Oak View:**

On July 1, 2003 Oak View, Inc. was dissolved and became a department of People's Memorial Hospital of Buchanan County, a/k/a Buchanan County Health Center. This transaction took place with very little noticeable effect on the day-to-day operations of the Health Center, yet there was a net deficit of net assets from this transaction.

### **Capital Assets and Debt Administration:**

The Health Center's total net capital assets at June 30, 2004 amounted to \$7,037,432. This investment includes land, buildings, and equipment.

Total outstanding long-term debt at June 30, 2004 was \$691,294.

### **Summary:**

The Health Center's Board of Trustees and Administrative Team continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 200 employees provides to every person they serve. We would also like to thank each member of the Health Center's Medical Staff for their dedication and support provided.

### **Requests for Information:**

Questions regarding the information provided in this report or requests for additional financial information should be addressed to Ronald Timpe, Associate Administrator, Independence, Iowa.



	<u>2004</u>	<u>2003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Note payable - Note 7	\$ -	\$ 50,000
Current maturities of long-term debt - Note 7	43,751	-
Accounts payable		
Trade	471,631	278,672
Estimated third-party payor settlements	-	15,000
Accrued expenses		
Salaries and wages	50,716	209,194
Vacation	373,775	333,049
Payroll taxes and other	112,252	36,973
Interest	45,000	21,417
Deferred revenue for succeeding year property tax receivable	<u>608,700</u>	<u>561,557</u>
Total current liabilities	<u>1,705,825</u>	<u>1,505,862</u>
<b>NONCURRENT LIABILITIES</b>		
Deposits - Note 8	2,449,130	-
Long-term debt, less current maturities - Note 7	<u>691,294</u>	<u>-</u>
Total noncurrent liabilities	<u>3,140,424</u>	<u>-</u>
Total liabilities	<u>4,846,249</u>	<u>1,505,862</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,853,257	4,832,717
Unrestricted	1,395,865	1,094,169
Restricted		
Expendable for future capital acquisitions	<u>-</u>	<u>15,000</u>
Total net assets	<u>5,249,122</u>	<u>5,941,886</u>
Total liabilities and net assets	<u>\$ 10,095,371</u>	<u>\$ 7,447,748</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Net patient and resident service revenue (net of provision for bad debts of \$206,998 in 2004 and \$182,169 in 2003) - Notes 2 and 3	\$ 10,565,664	\$ 9,472,867
Other operating revenues	<u>603,686</u>	<u>262,767</u>
<b>TOTAL OPERATING REVENUES</b>	<u>11,169,350</u>	<u>9,735,634</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	5,328,934	4,844,289
Supplies and other expenses	5,426,077	4,814,356
Depreciation	<u>539,019</u>	<u>443,248</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>11,294,030</u>	<u>10,101,893</u>
<b>LOSS FROM OPERATIONS</b>	<u>(124,680)</u>	<u>(366,259)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
County tax revenue	570,656	553,992
Noncapital grants and contributions	17,687	45,687
Investment income	10,301	6,747
Interest expense	(38,535)	(13,351)
Rental income	83,621	77,529
Loss on disposal of equipment	<u>(4,775)</u>	<u>(13,164)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>638,955</u>	<u>657,440</u>
<b>REVENUES IN EXCESS OF EXPENSES BEFORE TRANSFER</b>	514,275	291,181
Transfer of Oak View, Inc., net assets (deficit) - Note 13	<u>(1,207,039)</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(692,764)	291,181
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>5,941,886</u>	<u>5,650,705</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 5,249,122</u>	<u>\$ 5,941,886</u>

See notes to financial statements.

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient and resident service revenue	\$ 10,393,465	\$ 9,483,728
Other receipts	696,070	226,088
Payments of salaries and wages	(5,446,686)	(4,734,696)
Payments of supplies and other expenses	(5,438,510)	(4,877,580)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>204,339</u>	<u>97,540</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax revenue received	570,656	553,992
Noncapital grants and contributions received	17,687	45,687
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>588,343</u>	<u>599,679</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(525,865)	(359,173)
Proceeds from sale of equipment	15,130	2,626
Increase in deposits payable	50,328	-
Payment of principal on debt	(97,303)	(403,928)
Payment of interest on debt	(47,952)	(13,351)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(605,662)</u>	<u>(773,826)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in assets limited as to use	(326,023)	100,266
Investment income received	10,301	6,747
Rental income received	83,621	77,529
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>(232,101)</u>	<u>184,542</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(45,081)	107,935
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>203,652</u>	<u>95,717</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 158,571</u>	<u>\$ 203,652</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (124,680)	\$ (366,259)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	539,019	443,248
Provision for bad debts	206,998	182,169
Changes in assets and liabilities		
Receivables	(221,813)	(172,987)
Estimated third-party payor settlements	(65,000)	(35,000)
Supplies	3,269	(15,228)
Prepaid expenses	(83,312)	631
Accounts payable	63,231	709
Accrued expenses	<u>(113,373)</u>	<u>60,257</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 204,339</u>	<u>\$ 97,540</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY		
Oak View equity transfer	<u>\$ (1,207,039)</u>	<u>\$ -</u>

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

People's Memorial Hospital, d/b/a Buchanan County Health Center, (Health Center) located in Independence, Iowa, is a 25-bed public hospital and a 59-bed nursing care center, organized under Chapter 347A of the Iowa Code and governed by a five member Board of Trustees elected for alternating terms of six years. As of July 1, 2003, the Health Center also operates an independent living center (Oak View), which develops housing facilities within the Independence, Iowa, area for retired individuals with a life long plan for independent living and dependent care. The Health Center has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

*Reporting Entity*

For financial reporting purposes, People's Memorial Hospital, d/b/a Buchanan County Health Center, has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center. People's Memorial Hospital, d/b/a Buchanan County Health Center, has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

*Basis of Presentation*

Effective July 1, 2003, the Health Center implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Health Center.

GASB Statements No. 34 and No. 37 relate to changes in financial statement presentation. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenues, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt, unrestricted, and restricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets net of related debt.” Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Health Center’s policy to use restricted resources first.

The adoption of Statement No. 34 resulted in the previously reported unrestricted fund balance amounts being classified to conform to the above net asset classifications. Additionally, the Health Center restated the 2003 statement of cash flows to conform to the direct method of reporting cash receipts and disbursements.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

*Basis of Accounting*

The Health Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants’ *Audits of Providers of Health Care Services* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Health Center applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, excluding assets limited as to use.

*Patient and Resident Receivables*

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed.

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**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
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Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

*Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*Supplies*

Supplies are stated at lower of cost (first-in, first-out) or market.

*Assets Limited as to Use*

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt redemption. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

*Restricted Net Assets*

Restricted net assets 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 Health Center for its stated purposes.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$1,500 are capitalized and recorded at cost. Land, buildings, and equipment donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Interest expense related to construction projects is capitalized. The estimated useful lives of property and equipment are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	5-15 years

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*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$21,185 and \$26,282 for advertising costs for the years ended June 30, 2004 and 2003, respectively.

*Compensated Absences*

Health Center employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004.

*Deferred Revenue*

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable.

*Net Assets*

Net assets of the Health Center are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health Center. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted*.

*Operating Revenues and Expenses*

The Health Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

*Net Patient and Resident Service Revenue*

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

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*Charity Care*

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue depending on the timing of the charity determination.

*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 unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Restricted Resources*

When the Health Center has both restricted and unrestricted resources available to finance a particular program, it is the Health Center's policy to use restricted resources before unrestricted resources.

*Reclassifications*

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

*Other Significant Accounting Policies*

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

**NOTE 2 – CHARITY CARE**

The Health Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2004 and 2003, were \$138,912 and \$117,796, respectively.

**NOTE 3 – NET PATIENT AND RESIDENT SERVICE REVENUE**

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

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**Medicare:** The Health Center is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended March 31, 2002. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2001.

**Nursing Home:** Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

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

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

A summary of net patient and resident service revenue, contractual adjustments, and policy discounts for the years ended June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Total patient and resident service revenue	\$ 14,734,542	\$ 13,312,403
Contractual adjustments		
Medicare	(2,409,575)	(2,172,512)
Medicaid	(553,209)	(569,014)
Other	(623,135)	(578,266)
Policy discounts	<u>(375,961)</u>	<u>(337,575)</u>
Total deductions from patient and resident service revenue	<u>(3,961,880)</u>	<u>(3,657,367)</u>
Net patient and resident service revenue	10,772,662	9,655,036
Provision for bad debts	<u>(206,998)</u>	<u>(182,169)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 10,565,664</u>	<u>\$ 9,472,867</u>

(continued on next page)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 4 – CASH AND DEPOSITS**

The Health Center's deposits in banks at June 30, 2004 and 2003, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2004 and 2003, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2004</u>	<u>2003</u>
Savings account	\$ 205,338	\$ 78,517
Money market account	218,293	103
Certificates of deposit	68,533	67,148
Accrued interest receivable	50	458
	<u>\$ 492,214</u>	<u>\$ 146,226</u>

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

A summary of land, buildings, and equipment at June 30, 2004 and 2003, is as follows:

	June 30, 2003				June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
<b>Cost</b>					
Land	\$ 39,268	\$ -	\$ -	\$ -	\$ 39,268
Land improvements	185,221	-	-	37,824	223,045
Buildings	7,096,882	39,467	-	2,575,452	9,711,801
Equipment	3,314,957	218,635	181,714	134,772	3,486,650
Construction in progress	-	267,765	-	-	267,765
	<u>\$ 10,636,328</u>	<u>\$ 525,867</u>	<u>\$ 181,714</u>	<u>\$ 2,748,048</u>	<u>\$ 13,728,529</u>
<b>Accumulated depreciation</b>					
Land improvements	\$ 112,711	\$ 11,947	\$ -	\$ 17,436	\$ 142,094
Buildings	3,072,696	319,348	-	460,805	3,852,849
Equipment	2,568,204	207,726	161,810	82,034	2,696,154
	<u>\$ 5,753,611</u>	<u>\$ 539,021</u>	<u>\$ 161,810</u>	<u>\$ 560,275</u>	<u>\$ 6,691,097</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

	June 30, 2002				June 30, 2003
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
<b>Cost</b>					
Land	\$ 39,268	\$ -	\$ -	\$ -	\$ 39,268
Land improvements	174,596	10,625	-	-	185,221
Buildings	7,048,142	48,740	-	-	7,096,882
Equipment	<u>3,043,184</u>	<u>299,808</u>	<u>28,035</u>	<u>-</u>	<u>3,314,957</u>
	<u>\$ 10,305,190</u>	<u>\$ 359,173</u>	<u>\$ 28,035</u>	<u>\$ -</u>	<u>\$ 10,636,328</u>
<b>Accumulated depreciation</b>					
Land improvements	\$ 102,804	\$ 9,907	\$ -	\$ -	\$ 112,711
Buildings	2,820,982	251,714	-	-	3,072,696
Equipment	<u>2,398,822</u>	<u>181,627</u>	<u>12,245</u>	<u>-</u>	<u>2,568,204</u>
	<u>\$ 5,322,608</u>	<u>\$ 443,248</u>	<u>\$ 12,245</u>	<u>\$ -</u>	<u>\$ 5,753,611</u>

Construction in progress at June 30, 2004, represents approximately \$177,000 for a Wellness Center. The remaining balance is for a new computer system. The estimated additional cost to complete the Wellness Center is \$3,025,000 which will be financed through debt. The Wellness Center is expected to be completed in April 2005.

**NOTE 6 – LEASES**

The Health Center leases certain equipment under noncancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for all operating leases for the years ended June 30, 2004 and 2003, was \$194,809 and \$159,624, respectively.

Minimum future lease payments for the noncancellable operating leases are as follows:

<u>Year Ending June 30,</u>	
2005	\$ 34,468
2006	34,468
2007	34,468
2008	34,468
2009	<u>34,468</u>
Total minimum lease payments	<u>\$ 172,340</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 7 – NOTE PAYABLE AND LONG-TERM DEBT**

Note payable consists of:

	<u>2004</u>	<u>2003</u>
4.75% note payable to bank, unsecured	\$ <u>-</u>	\$ <u>50,000</u>

A schedule of changes in the Health Center's long-term debt for 2004 and 2003 follows:

	<u>June 30</u> <u>2003</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30</u> <u>2004</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
3.0% note payable to Buchanan County Health Trust, Inc., no maturity date, unsecured	\$ -	\$ 400,000	\$ -	\$ 400,000	\$ -
6.5% note payable to bank, maturity date of July 1, 2010, secured by real estate	<u>-</u>	<u>382,348</u>	<u>47,303</u>	<u>335,045</u>	<u>43,751</u>
	<u>\$ -</u>	<u>\$ 782,348</u>	<u>\$ 47,303</u>	<u>735,045</u>	<u>\$ 43,751</u>
Less current maturities				<u>(43,751)</u>	
Long-term debt, less current maturities				<u>\$ 691,294</u>	

Long-term debt requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 43,751	\$ 20,558	\$ 64,309
2006	50,789	17,370	68,159
2007	54,190	13,969	68,159
2008	57,820	10,339	68,159
2009	61,692	6,467	68,159
2010	66,803	2,335	69,138
No maturity date	<u>400,000</u>	<u>-</u>	<u>400,000</u>
	<u>\$ 735,045</u>	<u>\$ 71,038</u>	<u>\$ 806,083</u>

Long-term debt includes a note due to Buchanan County Health Trust, Inc., of \$400,000 for Oak View. This note has no maturity date and is due as funds become available. The Health Center does not anticipate paying any principal on this note during the year ending June 30, 2005.

**PEOPLE'S MEMORIAL HOSPITAL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

	June 30 2002		June 30 2003	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>
7% note payable to bank, hospital revenue note, Series 1991A, due in monthly installments of \$11,582 including interest, through December 1, 2002	\$ 66,922	\$ -	\$ 66,922	\$ -
3.5% note payable to Buchanan County Health Trust, Inc., hospital revenue note, Series 1991B, due in monthly installments of \$7,463 including interest, through December 1, 2002	<u>37,006</u>	<u>-</u>	<u>37,006</u>	<u>-</u>
	<u>\$ 103,928</u>	<u>\$ -</u>	<u>\$ 103,928</u>	<u>\$ -</u>

**NOTE 8 – DEPOSITS**

The Health Center enters into residency agreements with the tenants of the Oak View independent living units. At the time a residency agreement is signed, the tenant must pay the full amount of an entrance payment. Prior to July 1, 2000, Oak View recognized 10% of the entrance payment as income in the year the residency agreement was entered into. The remaining 90% of the entrance payment is fully refundable upon termination of the residency agreement, regardless of the number of years a tenant occupies a unit. As of July 1, 2000, 20% of the entrance payment is recognized as income, and the remaining 80% of the entrance payment is fully refundable upon termination. The refundable amounts are shown as deposits under noncurrent liabilities on the balance sheet.

**NOTE 9 – PENSION AND RETIREMENT BENEFITS**

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

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

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Plan members are required to contribute 3.70% of their annual covered salary and the Health Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$303,215, \$269,059, and \$258,269, respectively, equal to the required contributions for each year.

In addition to IPERS, the Health Center also has a 403(b) plan under which employees can participate after three months of service. The maximum matching contribution made by the Health Center may not exceed 4% of the employees annual compensation. The Health Center's contributions to the plan for the years ended June 30, 2004, 2003, and 2002, were \$64,785, \$59,848, and \$73,701, respectively.

**NOTE 10 – MALPRACTICE INSURANCE**

The Health Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual 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.

**NOTE 11 – RISK MANAGEMENT**

People's Memorial Hospital, d/b/a Buchanan County Health Center, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 12 – CONCENTRATION OF CREDIT RISK**

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2004 and 2003, was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	38%	35%
Medicaid	7	4
Commercial insurance	24	26
Other third-party payors, patients, and residents	<u>31</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 13 – TRANSFER OF OAK VIEW INC., NET ASSETS (DEFICIT)**

On July 1, 2003, the net assets (deficit) of Oak View Inc., were transferred to the Health Center. The equity transfer consisted of the following:

Assets limited as to use	\$	19,964
Property and equipment		2,187,773
Accounts payable		(129,728)
Accrued expenses		(70,900)
Accrued interest payable		(33,000)
Long-term debt		(782,348)
Deposits payable		<u>(2,398,800)</u>
Total equity transfer	\$	<u>(1,207,039)</u>

**NOTE 14 – SUBSEQUENT EVENT**

The Health Center obtained a line of credit from a bank for up to \$1,500,000 on August 10, 2004. The Health Center borrowed \$600,000 at the annual rate of 4.25% on August 16, 2004, against this line of credit. The purpose of the line of credit is for the construction of the Wellness Center.



Consultants • Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

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The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Eide Bailly* LLP

Dubuque, Iowa  
August 27, 2004

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED JUNE 30, 2004**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 570,656	\$ -	\$ 570,656	\$ 580,000	\$ (9,344)
Estimated other revenues/receipts	<u>11,276,184</u>	<u>(166,662)</u>	<u>11,109,522</u>	<u>14,121,000</u>	<u>(3,011,478)</u>
Expenses/disbursements	<u>11,846,840</u>	<u>(166,662)</u>	<u>11,680,178</u>	<u>14,701,000</u>	<u>(3,020,822)</u>
	<u>11,332,565</u>	<u>46,706</u>	<u>11,379,271</u>	<u>15,745,460</u>	<u>4,366,189</u>
Net	514,275	(213,368)	300,907	(1,044,460)	<u>\$ 1,345,367</u>
Balance beginning of year	5,941,886	(5,592,008)	349,878	2,212,014	
Transfer of Oak View, Inc. net assets (deficit)	<u>(1,207,039)</u>	<u>1,207,039</u>	<u>-</u>	<u>-</u>	
Balance end of year	<u>\$ 5,249,122</u>	<u>\$ (4,598,337)</u>	<u>\$ 650,785</u>	<u>\$ 1,167,554</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>PATIENT AND RESIDENT SERVICE REVENUE</b>		
Routine services - hospital	\$ 1,286,762	\$ 1,153,603
Routine services - nursing care center	1,619,649	1,850,978
Newborn nursery	36,260	41,032
Operating and recovery rooms	1,342,708	1,164,792
Delivery and labor rooms	25,735	21,066
Central services and supply	985,981	713,547
Emergency services	535,888	462,101
Laboratory and blood bank	1,908,840	1,683,708
Cardiac rehab	41,611	58,126
Electrocardiology	82,827	82,638
Radiology	2,468,027	2,425,930
Pharmacy	1,750,209	1,394,913
Anesthesiology	595,317	522,879
Respiratory therapy	401,977	269,054
Physical therapy	733,901	638,075
Speech therapy	15,752	44
Occupational therapy	77,793	26,724
Ambulance	498,310	433,635
Community care	<u>465,907</u>	<u>487,354</u>
	14,873,454	13,430,199
Charity care	<u>(138,912)</u>	<u>(117,796)</u>
Total patient and resident service revenue*	<u>\$ 14,734,542</u>	<u>\$ 13,312,403</u>
<b>*TOTAL PATIENT AND RESIDENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	\$ 6,680,375	\$ 5,835,898
Outpatient revenue	8,193,079	7,594,301
Charity care	<u>(138,912)</u>	<u>(117,796)</u>
Total patient and resident service revenue	<u>14,734,542</u>	<u>13,312,403</u>
<b>DEDUCTIONS FROM PATIENT AND RESIDENT SERVICE REVENUE</b>		
Contractual adjustments		
Medicare	(2,409,575)	(2,172,512)
Medicaid	(553,209)	(569,014)
Other	(623,135)	(578,266)
Policy discounts	<u>(375,961)</u>	<u>(337,575)</u>
Total deductions from patient and resident service revenue	<u>(3,961,880)</u>	<u>(3,657,367)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	10,772,662	9,655,036
PROVISION FOR BAD DEBTS	<u>(206,998)</u>	<u>(182,169)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 10,565,664</u>	<u>\$ 9,472,867</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OTHER OPERATING REVENUES</b>		
Independent Living Center	\$ 258,806	\$ -
Community care grant	207,505	162,054
Transcription fees	38,280	19,140
Flu shot clinic	25,917	6,090
Grants	19,180	5,000
Other nonpatient meals	11,040	16,232
Diabetic education	10,696	6,746
Inservice fees	7,859	8,130
Immunization clinic	5,419	7,125
Nonpatient pharmacy sales	4,813	4,153
Laundry	4,409	12,118
Medical records transcript fees	1,573	1,428
State replacement tax	-	7,549
Other	8,189	7,002
	<u>8,189</u>	<u>7,002</u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<u>\$ 603,686</u>	<u>\$ 262,767</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 77,508	\$ 70,583
Supplies and other expenses	<u>6,778</u>	<u>4,578</u>
	<u>84,286</u>	<u>75,161</u>
<b>ROUTINE NURSING SERVICES</b>		
Salaries and wages	1,709,445	1,660,394
Supplies other expenses	<u>179,462</u>	<u>192,022</u>
	<u>1,888,907</u>	<u>1,852,416</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	380,590	216,481
Supplies and other expenses	<u>244,503</u>	<u>239,866</u>
	<u>625,093</u>	<u>456,347</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	2,477	66
Supplies and other expenses	<u>1,470</u>	<u>869</u>
	<u>3,947</u>	<u>935</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	44,165	36,766
Supplies and other expenses	<u>51,582</u>	<u>49,945</u>
	<u>95,747</u>	<u>86,711</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	118,849	65,979
Supplies and other expenses	<u>198,884</u>	<u>148,472</u>
	<u>317,733</u>	<u>214,451</u>
<b>LABORATORY AND BLOOD BANK</b>		
Salaries and wages	285,953	210,698
Supplies and other expenses	<u>320,767</u>	<u>322,840</u>
	<u>606,720</u>	<u>533,538</u>
<b>ELECTROCARDIOLOGY</b>		
Supplies and other expenses	<u>7,626</u>	<u>8,628</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>RADIOLOGY</b>		
Salaries and wages	\$ 210,604	\$ 195,010
Supplies and other expenses	<u>465,791</u>	<u>433,400</u>
	<u>676,395</u>	<u>628,410</u>
<b>PHARMACY</b>		
Salaries and wages	79,489	71,394
Supplies and other expenses	<u>360,407</u>	<u>234,301</u>
	<u>439,896</u>	<u>305,695</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>258,967</u>	<u>246,738</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	66,103	65,021
Supplies and other expenses	<u>31,318</u>	<u>34,715</u>
	<u>97,421</u>	<u>99,736</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	224,745	191,555
Supplies and other expenses	<u>15,685</u>	<u>27,861</u>
	<u>240,430</u>	<u>219,416</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>5,153</u>	<u>-</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>54,974</u>	<u>13,312</u>
<b>AMBULANCE</b>		
Salaries and wages	109,494	102,962
Supplies and other expenses	<u>19,591</u>	<u>10,932</u>
	<u>129,085</u>	<u>113,894</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>INDEPENDENT LIVING</b>		
Salaries and wages	\$ 83,844	\$ -
Supplies and other expenses	<u>124,850</u>	<u>-</u>
	<u>208,694</u>	<u>-</u>
<b>COMMUNITY CARE</b>		
Salaries and wages	517,406	559,271
Supplies and other expenses	<u>68,740</u>	<u>61,682</u>
	<u>586,146</u>	<u>620,953</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	185,261	154,466
Supplies and other expenses	<u>58,397</u>	<u>50,361</u>
	<u>243,658</u>	<u>204,827</u>
<b>DIETARY</b>		
Salaries and wages	253,811	246,897
Food	143,258	138,812
Supplies and other expenses	<u>31,006</u>	<u>35,947</u>
	<u>428,075</u>	<u>421,656</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	144,643	159,051
Utilities	265,554	212,328
Supplies and other expenses	<u>99,611</u>	<u>147,968</u>
	<u>509,808</u>	<u>519,347</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	195,863	209,163
Supplies and other expenses	<u>18,864</u>	<u>18,823</u>
	<u>214,727</u>	<u>227,986</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	15,656	20,181
Supplies and other expenses	<u>104,363</u>	<u>107,981</u>
	<u>120,019</u>	<u>128,162</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

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	<u>2004</u>	<u>2003</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	\$ 623,028	\$ 608,351
Supplies and other expenses	<u>502,587</u>	<u>534,451</u>
	<u>1,125,615</u>	<u>1,142,802</u>
UNASSIGNED EXPENSES		
Depreciation	539,019	443,248
Insurance	160,937	93,137
Employee benefits	<u>1,624,952</u>	<u>1,444,387</u>
	<u>2,324,908</u>	<u>1,980,772</u>
TOTAL OPERATING EXPENSES	<u>\$ 11,294,030</u>	<u>\$ 10,101,893</u>

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
PATIENT AND RESIDENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL  
ACCOUNTS  
JUNE 30, 2004 AND 2003**

**ANALYSIS OF AGING**

Days Since Discharge	2004		2003	
	Amount	Percent to Total	Amount	Percent to Total
0 – 30 Days	\$ 1,204,858	48.64%	\$ 1,172,414	52.81%
1 – 2 Months	512,248	20.68	352,747	15.89
2 – 3 Months	169,081	6.82	135,867	6.12
3 – 6 Months	228,084	9.21	159,727	7.20
6 – 12 Months	160,971	6.50	129,860	5.85
Over 12 Months	201,849	8.15	269,277	12.13
	2,477,091	100.00%	2,219,892	100.00%
Less: Allowance for doubtful accounts	450,000		400,000	
Allowance for contractual adjustments	527,000		427,000	
Net	\$ 1,500,091		\$ 1,392,892	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
BALANCE, BEGINNING OF YEAR	\$ 400,000	\$ 475,000
Add: Provision for bad debts	206,998	182,169
Recoveries of accounts written off	124,089	99,489
Less: Accounts written off	(281,087)	(356,658)
BALANCE, END OF YEAR	\$ 450,000	\$ 400,000

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SUPPLIES/PREPAID EXPENSES**  
**JUNE 30, 2004 AND 2003**

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	<u>2004</u>	<u>2003</u>
<b>SUPPLIES</b>		
Central stores	\$ 17,710	\$ 18,697
Pharmacy	71,300	69,066
Dietary	<u>8,960</u>	<u>13,476</u>
Total	<u>\$ 97,970</u>	<u>\$ 101,239</u>
<b>PREPAID EXPENSES</b>		
Insurance	<u>\$ 87,941</u>	<u>\$ 4,629</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2004**

<u>Company and Policy Number</u>	<u>Description</u>	<u>Amount of Coverage</u>	<u>Annual Premium</u>	<u>Expiration Date</u>
Chubb-Federal Insurance Co. #3579-39-55-ITG	Building and contents Blanket earnings and expense Earthquake Boiler	\$ 14,483,330 \$ 6,897,000 \$ 5,000,000 \$ 4,000,000	\$ 53,827	6/15/05
EMC Insurance Co. #T222750	Employee dishonesty	\$ 500,000	\$ 1,216	6/15/05
Chubb-Federal Insurance Co. #7498-06-59	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 8,729	6/15/05
Physicians Insurance Co. #134276	Professional liability	\$ 1,000,000/ 3,000,000	\$ 32,503	08/14/04
	General liability	\$ 1,000,000/ 3,000,000	\$ 7,976	08/14/04
#134279	Umbrella excess liability	\$ 2,000,000/ 2,000,000	\$ 24,752	08/14/04
#134283	Professional liability - surgeon	\$ 1,000,000/ 3,000,000	\$ 17,954	08/14/04
Farm Bureau Financial Services #7211290	Workers' compensation	\$ 500,000	\$ 80,231	4/1/05
Fireman's Fund Insurance Co. #NDP 000-6874-1115	Directors' and officers' liability	\$ 1,000,000	\$ 6,925	6/15/05

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>PATIENT DAYS</b>		
Health Center		
Acute	1,533	1,357
Swing-bed	526	527
Newborn	66	79
Nursing Care Center	16,730	19,730
<b>NUMBER OF BEDS</b>		
Health Center	25	25
Nursing Care Center	59	59
<b>PERCENTAGE OF OCCUPANCY</b>		
Health Center	23%	21%
Nursing Care Center	78%	92%
<b>DISCHARGES</b>		
Health Center (excluding newborn)		
Acute	617	545
Swing-bed	96	72
Nursing Care Center	54	52
<b>AVERAGE LENGTH OF STAY</b>		
Health Center (excluding newborn)		
Acute	2.5	2.5
Swing-bed	5.5	7.3
Nursing Care Center	309.8	379.4
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients and residents	\$ 1,500,091	\$ 1,392,892
Number of days charges outstanding (1)	47	49
Uncollectible accounts (2)	\$ 383,141	\$ 335,913
Percentage of uncollectible accounts to total charges	2.6%	2.5%

- (1) Based on average daily net patient and resident service revenue for April, May, and June.  
(2) Includes provision for bad debts, charity care, and collection fees.



Consultants • Certified Public Accountants

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

We have audited the accompanying balance sheets of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated August 27, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the financial statements of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments and recommendations.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the ability of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I as item I-A-04 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We also noted another matter involving Health Center operations that we have reported to management in a separate letter dated August 27, 2004. However, we believe the reportable condition described above is not a material weakness. Prior year reportable condition item I-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, and other parties to whom **People's Memorial Hospital, d/b/a Buchanan County Health Center**, may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Erin Bailey* LLP

Dubuque, Iowa  
August 27, 2004

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

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

**REPORTABLE CONDITION:**

I-A-04     Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Health Center should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

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

II-A-04     Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04     Certified Budget – Health Center disbursements during the year ended June 30, 2004, did not exceed amounts budgeted.

II-C-04     Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04     Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-E-04     Business Transactions – A Health Center Board member and his family are principal owners of the bank where the Health Center has its checking accounts and general fund investments. This was also the case before this individual became a Health Center Board member.

II-F-04     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-04     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy were noted.