



**FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

**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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Rudolph Leytze	Chairperson	2010
Ben Riensche	Vice-Chairperson	2008
Susan White	Secretary	2006
Connie Brown	Treasurer	2006
Lans Flickinger	Trustee	2010
<u>Health Center Officials</u>		
Robert J. Richard	Chief Executive Officer	
Ronald Timpe	Associate Administrator	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005, on our consideration of **People's Memorial Hospital's, d/b/a Buchanan County Health Center**, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 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. We did not audit the information and express no opinion on it.

Eide Bailly LLP

Dubuque, Iowa
August 3, 2005



Management's Discussion and Analysis June 30, 2005

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 \$591,892 at June 30, 2005.
- The Health Center recorded an excess of revenues over expenses for fiscal year ending June 30, 2005 amounting to \$165,548.
- Net days in accounts receivable was 51 at June 30, 2005.
- Total patient days amount to:
 - 1,527-Acute Care (4.5% decline)
 - 434- SNF Care (17.5% decline)
 - 19,178 LTC (14.6% increase)

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, 2005 indicates total assets of \$ 13,290,733, total liabilities amounting to \$7,776,063 and net assets of \$5,514,670. Total current assets were \$3,208,046 and current liabilities \$2,616,154 resulting in a current ratio of 1.23.

The Statements of Revenues, Expenses, and Changes in Net Assets indicate total operating revenues of \$11,862,517 (6.2% increase from prior year), and total expenses of \$12,295,495 resulting in a loss from operations of \$432,978. A net non-operating gain of \$598,526 brings the revenues in excess of expenses to \$165,548.

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:

During the month of April 2005 our new 15,000 square foot Physical Therapy/Rehab and Wellness (TWC) addition was opened. TWC has several additional therapy treatment rooms, lap swimming pool, therapy pool, along with numerous therapy exercise equipment. This addition has been very successful in the short time it has been opened.

The Hospital is in the very early stages of planning for remodeling of the current emergency room and surgery departments. It is anticipated that these projects may begin in late 2005. No cost estimates have been determined at this point in time. Partial funding for this project will be from a wonderful \$100,000 donation presented to the Hospital in fiscal year 2005.

Capital Assets and Debt Administration:

The Health Center's total net capital assets at June 30, 2005 amounted to \$9,706,265. This investment includes land, buildings, and equipment.

Total outstanding long-term debt at June 30, 2005 was \$3,224,789.

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 215 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.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 453,702	\$ 158,571
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,205,000 in 2005 and \$977,000 in 2004	1,804,153	1,500,091
Succeeding year property tax receivable	655,000	608,700
Estimated third-party payor settlements	140,000	50,000
Other	28,267	62,452
Supplies	111,901	97,970
Prepaid expenses	<u>15,023</u>	<u>87,941</u>
Total current assets	3,208,046	2,565,725
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board/donor for capital improvements and debt redemption	303,726	492,214
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	9,706,265	7,037,432
OTHER ASSET		
Deferred financing costs, net of accumulated amortization of \$304	<u>72,696</u>	<u>-</u>
Total assets	<u>\$ 13,290,733</u>	<u>\$ 10,095,371</u>

See notes to financial statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit - Note 7	\$ 577,427	\$ -
Current maturities of long-term debt - Note 7	35,732	43,751
Accounts payable		
Trade	509,139	471,631
Construction	126,065	-
Accrued expenses		
Salaries and wages	63,690	50,716
Vacation	421,458	373,775
Payroll taxes and other	93,602	112,252
Interest	15,550	45,000
Deferred revenue	118,491	-
Deferred revenue for succeeding year property tax receivable	<u>655,000</u>	<u>608,700</u>
 Total current liabilities	 <u>2,616,154</u>	 <u>1,705,825</u>
NONCURRENT LIABILITIES		
Deposits - Note 8	1,935,120	2,449,130
Long-term debt, less current maturities - Note 7	<u>3,224,789</u>	<u>691,294</u>
 Total noncurrent liabilities	 <u>5,159,909</u>	 <u>3,140,424</u>
 Total liabilities	 <u>7,776,063</u>	 <u>4,846,249</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,933,197	3,853,257
Unrestricted	1,481,473	1,395,865
Restricted		
Expendable for future capital acquisitions	<u>100,000</u>	<u>-</u>
 Total net assets	 <u>5,514,670</u>	 <u>5,249,122</u>
 Total liabilities and net assets	 <u>\$ 13,290,733</u>	 <u>\$ 10,095,371</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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$218,848 in 2005 and \$206,998 in 2004) - Notes 2 and 3	\$ 11,305,185	\$ 10,565,664
Other operating revenues	<u>557,332</u>	<u>603,686</u>
TOTAL OPERATING REVENUES	<u>11,862,517</u>	<u>11,169,350</u>
OPERATING EXPENSES		
Salaries and wages	5,760,361	5,328,934
Supplies and other expenses	5,866,646	5,426,077
Depreciation	<u>668,488</u>	<u>539,019</u>
TOTAL OPERATING EXPENSES	<u>12,295,495</u>	<u>11,294,030</u>
LOSS FROM OPERATIONS	<u>(432,978)</u>	<u>(124,680)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	629,011	570,656
Noncapital grants and contributions	18,385	17,687
Investment income	6,250	10,301
Interest expense	(81,854)	(38,535)
Rental income	39,583	83,621
Loss on disposal of equipment	<u>(12,849)</u>	<u>(4,775)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>598,526</u>	<u>638,955</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND TRANSFER	165,548	514,275
OTHER CHANGES IN NET ASSETS		
Capital contributions	100,000	-
Transfer of Oak View, Inc., net assets (deficit) - Note 13	<u>-</u>	<u>(1,207,039)</u>
INCREASE (DECREASE) IN NET ASSETS	265,548	(692,764)
NET ASSETS BEGINNING OF YEAR	<u>5,249,122</u>	<u>5,941,886</u>
NET ASSETS END OF YEAR	<u>\$ 5,514,670</u>	<u>\$ 5,249,122</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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 11,029,614	\$ 10,393,465
Other receipts	591,517	696,070
Payments of salaries and wages	(5,699,704)	(5,446,686)
Payments of supplies and other expenses	<u>(5,662,736)</u>	<u>(5,438,510)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>258,691</u>	<u>204,339</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	629,011	570,656
Noncapital grants and contributions received	<u>18,385</u>	<u>17,687</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>647,396</u>	<u>588,343</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(3,352,170)	(525,865)
Proceeds from sale of equipment	2,000	15,130
Capital contributions received	100,000	-
Decrease in deferred financing costs	(72,696)	-
Increase (decrease) in deposits payable	(514,010)	50,328
Proceeds from issuance of debt	3,283,642	-
Proceeds from issuance of line-of-credit	785,000	-
Payment of principal on debt	(965,739)	(97,303)
Payment of interest on debt	<u>(111,304)</u>	<u>(47,952)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(845,277)</u>	<u>(605,662)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use	188,488	(326,023)
Investment income received	6,250	10,301
Rental income received	<u>39,583</u>	<u>83,621</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>234,321</u>	<u>(232,101)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	295,131	(45,081)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>158,571</u>	<u>203,652</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 453,702</u>	<u>\$ 158,571</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (432,978)	\$ (124,680)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	668,488	539,019
Provision for bad debts	218,848	206,998
Changes in assets and liabilities		
Receivables	(488,725)	(221,813)
Estimated third-party payor settlements	(90,000)	(65,000)
Supplies	(13,931)	3,269
Prepaid expenses	72,918	(83,312)
Accounts payable	163,573	63,231
Accrued expenses	42,007	(113,373)
Deferred revenue	<u>118,491</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 258,691</u>	<u>\$ 204,339</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY		
Oak View equity transfer	<u>\$ -</u>	<u>\$ (1,207,039)</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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' *Audit and Accounting Guide for Health Care Organizations* 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.

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.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 or Restricted

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

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$24,194 and \$21,185 for advertising costs for the years ended June 30, 2005 and 2004, respectively.

Deferred Financing Costs

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

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2005.

Deferred Revenue for Succeeding Year Property Tax Receivable

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 for succeeding year property tax receivable consists of next year's property tax receivable.

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 and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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.

Investment Income

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

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, 2005 and 2004, were \$198,990 and \$138,912 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:

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 June 30, 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.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2002.

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, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Total patient and resident service revenue	\$ 16,242,415	\$ 14,734,542
Contractual adjustments		
Medicare	(2,949,298)	(2,409,575)
Medicaid	(624,572)	(553,209)
Other	(906,356)	(623,135)
Policy discounts	<u>(238,156)</u>	<u>(375,961)</u>
Total deductions from patient and resident service revenue	<u>(4,718,382)</u>	<u>(3,961,880)</u>
Net patient and resident service revenue	11,524,033	10,772,662
Provision for bad debts	<u>(218,848)</u>	<u>(206,998)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 11,305,185</u>	<u>\$ 10,565,664</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 4 – CASH AND DEPOSITS

The Health Center's deposits in banks at June 30, 2005 and 2004, 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, 2005 and 2004, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2005</u>	<u>2004</u>
Savings account	\$ 91,236	\$ 205,338
Money market account	82,285	218,293
Certificates of deposit	130,166	68,533
Accrued interest receivable	<u>39</u>	<u>50</u>
	<u>\$ 303,726</u>	<u>\$ 492,214</u>

All of the above cash and deposits have a maturity date of less than one year.

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 Health Center are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

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

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings, and equipment at June 30, 2005, follows:

	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 39,268	\$ -	\$ -	\$ -	\$ 39,268
Land improvements	223,045	-	-	-	223,045
Buildings	9,711,801	126,065	-	2,823,133	12,660,999
Equipment	3,486,650	567,009	22,913	90,998	4,121,744
Construction in progress	267,765	2,659,805	-	(2,914,131)	13,439
	<u>13,728,529</u>	<u>3,352,879</u>	<u>22,913</u>	<u>-</u>	<u>17,058,495</u>
Accumulated depreciation					
Land improvements	142,094	11,245	-	-	153,339
Buildings	3,852,849	391,755	-	-	4,244,604
Equipment	2,696,154	265,181	7,048	-	2,954,287
	<u>6,691,097</u>	<u>668,181</u>	<u>7,048</u>	<u>-</u>	<u>7,352,230</u>
Total land, buildings, and equipment, net	<u>\$ 7,037,432</u>	<u>\$ 2,684,698</u>	<u>\$ 15,865</u>	<u>\$ -</u>	<u>\$ 9,706,265</u>

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

	June 30, 2003				June 30, 2004
	Balance	Additions	Deductions	Transfers	Balance
Cost					
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>
Accumulated depreciation					
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>
Total land, buildings, and equipment, net	<u>\$ 4,882,717</u>	<u>\$ (13,154)</u>	<u>\$ 19,904</u>	<u>\$ 2,187,773</u>	<u>\$ 7,037,432</u>

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Construction in progress at June 30, 2005, represents an emergency room project. The estimated additional cost to complete the project is not yet available. The project will be financed through a contribution received during fiscal year 2005 in addition to the proceeds of the revenue bonds received during fiscal year 2005. The project is expected to be completed during the next fiscal year.

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, 2005 and 2004, was \$238,666 and \$194,809, respectively.

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

<u>Year Ending June 30,</u>	
2006	\$ 34,468
2007	34,468
2008	34,468
2009	<u>34,468</u>
Total minimum lease payments	<u>\$ 137,872</u>

NOTE 7 – LINE OF CREDIT AND LONG-TERM DEBT

	<u>2005</u>	<u>2004</u>
4.25% line of credit payable to bank, unsecured. Matures on May 1, 2006.	<u>\$ 577,427</u>	<u>\$ -</u>

A schedule of changes in the Health Center's long-term debt for 2005 follows:

	<u>June 30 2004 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2005 Balance</u>	<u>Amounts Due Within One Year</u>
8.0% note payable to Mercy Medical Center for Medi-Tech Computer Software, due in monthly installments of \$3,550 on June 1, 2011	\$ -	\$ 227,578	\$ 23,121	\$ 204,457	\$ 27,228
4.5% Hospital Revenue Note, Series 2004, maturity date of May 1, 2025. Interest only payments through May 1, 2006, with principal payments starting June 1, 2006	-	3,056,064	-	3,056,064	8,504

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	<u>June 30 2004 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2005 Balance</u>	<u>Amounts Due Within 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>335,045</u>	<u>-</u>	<u>335,045</u>	<u>-</u>	<u>-</u>
	<u>\$ 735,045</u>	<u>\$ 3,283,642</u>	<u>\$ 758,166</u>	3,260,521	<u>\$ 35,732</u>
Less current maturities				<u>(35,732)</u>	
Long-term debt, less current maturities				<u>\$ 3,224,789</u>	

Line of credit and long-term debt requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 613,159	\$ 175,391	\$ 788,550
2007	134,058	148,114	282,172
2008	141,310	140,862	282,172
2009	148,985	133,187	282,172
2010	157,111	125,061	282,172
2011-2015	729,723	513,938	1,243,661
2016-2020	858,678	339,181	1,197,859
2021-2025	<u>1,054,924</u>	<u>122,970</u>	<u>1,177,894</u>
	<u>\$ 3,837,948</u>	<u>\$ 1,698,704</u>	<u>\$ 5,536,652</u>

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

	<u>June 30 2003 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2004 Balance</u>	<u>Amounts Due Within 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>

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PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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.

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, 2005, 2004, and 2003. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$309,019, \$303,215, and \$269,059, 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, 2005, 2004, and 2003, were \$67,352, \$64,785, and \$59,848, 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.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	32%	38%
Medicaid	4	7
Commercial insurance	29	24
Other third-party payors, patients, and residents	<u>35</u>	<u>31</u>
	<u>100%</u>	<u>100%</u>

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>



CPAs & BUSINESS ADVISORS

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

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 3, 2005

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, 2005

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 629,011	\$ -	\$ 629,011	\$ 589,988	\$ 39,023
Estimated other revenues/ receipts	<u>12,013,886</u>	<u>3,352,014</u>	<u>15,365,900</u>	<u>15,950,012</u>	<u>(584,112)</u>
	12,642,897	3,352,014	15,994,911	16,540,000	(545,089)
Expenses/disbursements	<u>12,377,349</u>	<u>3,510,919</u>	<u>15,888,268</u>	<u>18,061,150</u>	<u>2,172,882</u>
Net	265,548	(158,905)	106,643	(1,521,150)	<u>\$ 1,627,793</u>
Balance beginning of year	<u>5,249,122</u>	<u>(4,598,337)</u>	<u>650,785</u>	<u>1,167,554</u>	
Balance end of year	<u>\$ 5,514,670</u>	<u>\$ (4,757,242)</u>	<u>\$ 757,428</u>	<u>\$ (353,596)</u>	

This budgetary comparison is presented as Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
PATIENT AND RESIDENT SERVICE REVENUE		
Routine services - hospital	\$ 1,225,888	\$ 1,286,762
Routine services - nursing care center	1,961,245	1,619,649
Newborn nursery	32,429	36,260
Operating and recovery rooms	1,448,893	1,342,708
Delivery and labor rooms	12,400	25,735
Central services and supply	684,017	985,981
Emergency services	893,093	535,888
Laboratory and blood bank	2,193,340	1,908,840
Cardiac rehab	53,655	41,611
Electrocardiology	94,674	82,827
Radiology	2,940,683	2,468,027
Pharmacy	1,991,907	1,750,209
Anesthesiology	555,924	595,317
Respiratory therapy	365,969	401,977
Physical therapy	725,196	733,901
Speech and occupational therapy	166,746	93,545
Ambulance	580,700	498,310
Community care	514,646	465,907
	<u>16,441,405</u>	<u>14,873,454</u>
Charity care	(198,990)	(138,912)
Total patient and resident service revenue*	<u>\$ 16,242,415</u>	<u>\$ 14,734,542</u>
*TOTAL PATIENT AND RESIDENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 7,675,658	\$ 6,680,375
Outpatient revenue	8,765,747	8,193,079
Charity care	(198,990)	(138,912)
Total patient and resident service revenue	<u>16,242,415</u>	<u>14,734,542</u>
DEDUCTIONS FROM PATIENT AND RESIDENT SERVICE REVENUE		
Contractual adjustments		
Medicare	(2,949,298)	(2,409,575)
Medicaid	(624,572)	(553,209)
Other	(906,356)	(623,135)
Policy discounts	(238,156)	(375,961)
Total deductions from patient and resident service revenue	<u>(4,718,382)</u>	<u>(3,961,880)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE	11,524,033	10,772,662
PROVISION FOR BAD DEBTS	<u>(218,848)</u>	<u>(206,998)</u>
NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 11,305,185</u>	<u>\$ 10,565,664</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OTHER OPERATING REVENUES		
Grants	\$ 246,090	\$ 226,685
Independent Living Center	158,378	258,806
The Wellness Center fees	52,539	-
Transcription fees	37,335	38,280
Cafeteria	20,159	-
Flu shot clinic	12,812	25,917
Nonpatient pharmacy sales	7,044	4,813
Immunization clinic	5,721	5,419
Laundry	5,463	4,409
Other nonpatient meals	2,096	11,040
Medical records transcript fees	1,005	1,573
Diabetic education	-	10,696
Inservice fees	-	7,859
Other	<u>8,690</u>	<u>8,189</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 557,332</u>	<u>\$ 603,686</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 82,077	\$ 77,508
Supplies and other expenses	<u>11,935</u>	<u>6,778</u>
	<u>94,012</u>	<u>84,286</u>
ROUTINE NURSING SERVICES		
Salaries and wages	1,855,127	1,709,445
Supplies other expenses	<u>81,384</u>	<u>179,462</u>
	<u>1,936,511</u>	<u>1,888,907</u>
SOCIAL SERVICES		
Salaries and wages	51,411	38,668
Supplies other expenses	<u>189</u>	<u>120</u>
	<u>51,600</u>	<u>38,788</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	355,343	380,590
Supplies and other expenses	<u>328,443</u>	<u>244,503</u>
	<u>683,786</u>	<u>625,093</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	5,069	2,477
Supplies and other expenses	<u>329</u>	<u>1,470</u>
	<u>5,398</u>	<u>3,947</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	45,982	44,165
Supplies and other expenses	<u>18,764</u>	<u>51,582</u>
	<u>64,746</u>	<u>95,747</u>
EMERGENCY SERVICES		
Salaries and wages	139,813	118,849
Supplies and other expenses	<u>197,689</u>	<u>198,884</u>
	<u>337,502</u>	<u>317,733</u>
LABORATORY AND BLOOD BANK		
Salaries and wages	309,627	285,953
Supplies and other expenses	<u>397,309</u>	<u>320,767</u>
	<u>706,936</u>	<u>606,720</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ELECTROCARDIOLOGY		
Supplies and other expenses	\$ 5,574	\$ 7,626
RADIOLOGY		
Salaries and wages	238,290	210,604
Supplies and other expenses	<u>505,869</u>	<u>465,791</u>
	<u>744,159</u>	<u>676,395</u>
PHARMACY		
Salaries and wages	68,520	79,489
Supplies and other expenses	<u>477,541</u>	<u>360,407</u>
	<u>546,061</u>	<u>439,896</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>233,125</u>	<u>258,967</u>
RESPIRATORY THERAPY		
Salaries and wages	66,063	66,103
Supplies and other expenses	<u>42,523</u>	<u>31,318</u>
	<u>108,586</u>	<u>97,421</u>
PHYSICAL THERAPY		
Salaries and wages	264,827	224,745
Supplies and other expenses	<u>36,167</u>	<u>15,685</u>
	<u>300,994</u>	<u>240,430</u>
SPEECH AND OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>133,074</u>	<u>60,127</u>
AMBULANCE		
Salaries and wages	135,526	109,494
Supplies and other expenses	<u>19,306</u>	<u>19,591</u>
	<u>154,832</u>	<u>129,085</u>
INDEPENDENT LIVING		
Salaries and wages	90,865	83,844
Supplies and other expenses	<u>140,282</u>	<u>124,850</u>
	<u>231,147</u>	<u>208,694</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
COMMUNITY CARE		
Salaries and wages	\$ 543,375	\$ 517,406
Supplies and other expenses	<u>65,407</u>	<u>68,740</u>
	<u>608,782</u>	<u>586,146</u>
MEDICAL RECORDS		
Salaries and wages	202,065	185,261
Supplies and other expenses	<u>44,737</u>	<u>58,397</u>
	<u>246,802</u>	<u>243,658</u>
DIETARY		
Salaries and wages	262,280	253,811
Supplies and other expenses	<u>215,306</u>	<u>174,264</u>
	<u>477,586</u>	<u>428,075</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	146,698	144,643
Supplies and other expenses	<u>347,965</u>	<u>365,165</u>
	<u>494,663</u>	<u>509,808</u>
HOUSEKEEPING		
Salaries and wages	211,689	195,863
Supplies and other expenses	<u>23,306</u>	<u>18,864</u>
	<u>234,995</u>	<u>214,727</u>
LAUNDRY AND LINEN		
Salaries and wages	17,001	15,656
Supplies and other expenses	<u>98,735</u>	<u>104,363</u>
	<u>115,736</u>	<u>120,019</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	668,713	584,360
Supplies and other expenses	<u>494,520</u>	<u>502,467</u>
	<u>1,163,233</u>	<u>1,086,827</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
UNASSIGNED EXPENSES		
Depreciation	\$ 668,488	\$ 539,019
Insurance	167,911	160,937
Employee benefits	<u>1,779,256</u>	<u>1,624,952</u>
	<u>2,615,655</u>	<u>2,324,908</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,295,495</u>	<u>\$ 11,294,030</u>

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
PATIENT AND RESIDENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL
ACCOUNTS
JUNE 30, 2005 AND 2004**

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 – 30 Days	\$ 1,548,153	51.45%	\$ 1,204,858	48.64%
1 – 2 Months	324,757	10.79	512,248	20.68
2 – 3 Months	201,570	6.70	169,081	6.82
3 – 6 Months	231,165	7.68	228,084	9.21
6 – 12 Months	357,937	11.89	160,971	6.50
Over 12 Months	<u>345,571</u>	<u>11.49</u>	<u>201,849</u>	<u>8.15</u>
	3,009,153	<u>100.00%</u>	2,477,091	<u>100.00%</u>
Less: Allowance for doubtful accounts	465,000		450,000	
Allowance for contractual adjustments	<u>740,000</u>		<u>527,000</u>	
Net	<u>\$ 1,804,153</u>		<u>\$ 1,500,091</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
BALANCE, BEGINNING OF YEAR	\$ 450,000	\$ 400,000
Add: Provision for bad debts	218,848	206,998
Recoveries of accounts written off	21,533	124,089
Less: Accounts written off	<u>(225,381)</u>	<u>(281,087)</u>
BALANCE, END OF YEAR	<u>\$ 465,000</u>	<u>\$ 450,000</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SUPPLIES/PREPAID EXPENSES
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
SUPPLIES		
Central stores	\$ 16,128	\$ 17,710
Pharmacy	85,898	71,300
Dietary	<u>9,875</u>	<u>8,960</u>
Total	<u>\$ 111,901</u>	<u>\$ 97,970</u>
PREPAID EXPENSES		
Insurance	<u>\$ 15,023</u>	<u>\$ 87,941</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2005

<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	\$ 18,567,000 \$ 8,166,000 \$ 5,000,000 \$ 4,000,000	\$ 66,905	06/15/06
EMC Insurance Co. #T222750	Employee dishonesty	\$ 500,000	\$ 1,215	06/15/06
Chubb-Federal Insurance Co. #7498-06-59	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 9,126	06/15/06
Physicians Insurance Co. #134276	Professional liability	\$ 1,000,000/ 3,000,000	\$ 30,184	08/14/05
	General liability	\$ 1,000,000/ 3,000,000	\$ 8,693	08/14/05
#142037	Umbrella excess liability	\$ 4,000,000/ 4,000,000	\$ 30,629	08/14/05
#134283	Professional liability - surgeon	\$ 3,000,000/ 3,000,000	\$ 8,496	08/14/05
Farm Bureau Financial Services #7211290	Workers' compensation	\$ 500,000	\$ 115,916	04/01/06
Executive Risk Indemnity Inc. #648029414	Directors' and officers' liability	\$ 1,000,000	\$ 8,400	06/15/06

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
PATIENT DAYS		
Health Center		
Acute	1,502	1,533
Swing-bed	434	526
Newborn	25	66
Nursing Care Center	19,178	16,730
NUMBER OF BEDS		
Health Center	25	25
Nursing Care Center	59	59
PERCENTAGE OF OCCUPANCY		
Health Center	21%	23%
Nursing Care Center	89%	77%
DISCHARGES		
Health Center (excluding newborn)		
Acute	575	617
Swing-bed	60	96
Nursing Care Center	32	54
AVERAGE LENGTH OF STAY		
Health Center (excluding newborn)		
Acute	2.6	2.5
Swing-bed	7.2	5.5
Nursing Care Center	599.3	309.8
COLLECTION STATISTICS		
Net accounts receivable – patients and residents	\$ 1,804,153	\$ 1,500,091
Number of days charges outstanding (1)	51	47
Uncollectible accounts (2)	\$ 424,093	\$ 383,141
Percentage of uncollectible accounts to total charges	2.6%	2.6%

- (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.



CPAs & BUSINESS ADVISORS

**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
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, 2005 and 2004, 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 3, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion 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-05 in the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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 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 other matters involving Health Center operations that we have reported to management in a separate letter dated August 3, 2005. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

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 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.

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

Dubuque, Iowa
August 3, 2005

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-05 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-05 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, 2005.

II-B-05 Certified Budget – Health Center disbursements during the year ended June 30, 2005, did not exceed amounts budgeted.

II-C-05 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-05 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-E-05 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-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-05 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.