

**FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**



**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>		
Rudolph Leytze	Chairperson	2008
Ben Riensche	Vice-Chairperson	2006
Susan White	Secretary	2006
Connie Brown	Treasurer	2010
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

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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, 2006 and 2005, 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, 2006 and 2005, 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 July 19, 2006, 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 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 pages 22 and 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 required supplementary information. We did not audit the information and express no opinion on it.

*Eide Bailly LLP*

Dubuque, Iowa  
July 19, 2006



## **Management's Discussion and Analysis June 30, 2006**

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 \$929,815 at June 30, 2006.
- The Health Center recorded an excess of revenues over expenses for fiscal year ending June 30, 2006 amounting to \$169,500.
- Net days in accounts receivable was 44 at June 30, 2006.
- Total patient days amount to:
  - 1,407-Acute Care (6.3% decline)
  - 659- SNF Care (51.8% increase)
  - 20,688 LTC (7.9% 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, 2006 indicates total assets of \$12,866,904, total liabilities amounting to \$7,182,734 and net assets of \$5,684,170. Total current assets were \$2,901,593 and current liabilities \$1,971,778, resulting in a current ratio of 1.47. The cash position for the facility increased by \$52,025 from the previous year.

The Statement of Revenues, Expenses, and Changes in Net Assets indicates total operating revenues of \$12,811,775 (an 8.0% increase from prior year), and total expenses of \$13,222,472, resulting in an operating loss of \$410,697. A net non-operating gain of \$580,197 brings the excess of revenues over expenses to \$169,500.

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 Statement 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:**

November 2005 Buchanan County Health Center installed and placed into operation a Digital Radiology Service. This new advance technology provides the physicians with vivid images along with a much quicker diagnostic of the x-rays.

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

The Health Center's total net capital assets at June 30, 2006, amounted to \$9,316,386. This investment includes land, buildings, and equipment.

Total outstanding long-term debt at June 30, 2006, was \$3,276,296.

### **Department Changes:**

After several years operating Home Health Services, Buchanan County Health Center ceased operations in June 2006. This difficult decision was made after years of studying the declining reimbursements, clients and operations of this department.

### **New Physician:**

On August 1, 2006 Dr. McCormick began practice at Medical Associates of Independence and has become a member of our active physician staff. We welcome doctor and wish him success in his practice.

### **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 220 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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 505,727	\$ 453,702
Receivables		
Patient and resident, net of estimated uncollectibles		
of \$982,000 in 2006 and \$1,205,000 in 2005	1,468,569	1,804,153
Succeeding year property tax	755,500	655,000
Estimated third-party payor settlements	-	140,000
Other	29,883	28,267
Supplies	126,945	111,901
Prepaid expense	14,969	15,023
	<u>2,901,593</u>	<u>3,208,046</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
By board/donor for capital improvements		
and debt redemption	579,879	303,726
	<u>9,316,386</u>	<u>9,706,265</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>		
	<u>9,316,386</u>	<u>9,706,265</u>
<b>OTHER ASSET</b>		
Deferred financing costs, net of accumulated		
amortization of \$3,954 in 2006 and \$304 in 2005	69,046	72,696
	<u>69,046</u>	<u>72,696</u>
Total assets	<u>\$ 12,866,904</u>	<u>\$ 13,290,733</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit - Note 7	\$ 82,984	\$ 577,427
Current maturities of long-term debt - Note 7	129,079	35,732
Accounts payable		
Trade	172,250	446,158
Construction	-	126,065
Estimated third-party payor settlements	105,000	-
Accrued expenses		
Salaries and wages	78,562	63,690
Vacation	419,916	421,458
Payroll taxes and other	116,591	156,583
Interest	-	15,550
Deferred revenue	111,896	118,491
Deferred revenue for succeeding year property tax receivable	<u>755,500</u>	<u>655,000</u>
 Total current liabilities	 <u>1,971,778</u>	 <u>2,616,154</u>
<b>NONCURRENT LIABILITIES</b>		
Deposits - Note 8	1,934,660	1,935,120
Long-term debt, less current maturities - Note 7	<u>3,276,296</u>	<u>3,224,789</u>
 Total noncurrent liabilities	 <u>5,210,956</u>	 <u>5,159,909</u>
 Total liabilities	 <u>7,182,734</u>	 <u>7,776,063</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,893,367	3,933,197
Unrestricted	1,690,803	1,481,473
Restricted		
Expendable for future capital acquisitions	<u>100,000</u>	<u>100,000</u>
 Total net assets	 <u>5,684,170</u>	 <u>5,514,670</u>
 Total liabilities and net assets	 <u>\$ 12,866,904</u>	 <u>\$ 13,290,733</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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$265,472 in 2006 and \$218,848 in 2005) - Notes 2 and 3	\$ 12,028,266	\$ 11,305,185
Other operating revenues	<u>783,509</u>	<u>557,332</u>
TOTAL OPERATING REVENUES	<u>12,811,775</u>	<u>11,862,517</u>
OPERATING EXPENSES		
Salaries and wages	5,997,163	5,760,361
Supplies and other expenses	6,410,471	5,866,646
Depreciation and amortization	<u>814,838</u>	<u>668,488</u>
TOTAL OPERATING EXPENSES	<u>13,222,472</u>	<u>12,295,495</u>
OPERATING LOSS	<u>(410,697)</u>	<u>(432,978)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	654,253	629,011
Noncapital grants and contributions	39,869	18,385
Investment income	14,977	6,250
Interest expense	(166,975)	(81,854)
Rental income	36,880	39,583
Gain (loss) on disposal of equipment	<u>1,193</u>	<u>(12,849)</u>
NET NONOPERATING REVENUES	<u>580,197</u>	<u>598,526</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS	169,500	165,548
OTHER CHANGES IN NET ASSETS		
Capital contributions	<u>-</u>	<u>100,000</u>
INCREASE IN NET ASSETS	169,500	265,548
NET ASSETS BEGINNING OF YEAR	<u>5,514,670</u>	<u>5,249,122</u>
NET ASSETS END OF YEAR	<u>\$ 5,684,170</u>	<u>\$ 5,514,670</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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient and resident service revenue	\$ 12,602,255	\$ 11,029,614
Other receipts	781,893	591,517
Payments of salaries and wages	(5,983,833)	(5,699,704)
Payments of supplies and other expenses	<u>(6,865,426)</u>	<u>(5,662,736)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>534,889</u>	<u>258,691</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax revenue received	654,253	629,011
Noncapital grants and contributions received	<u>39,869</u>	<u>18,385</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>694,122</u>	<u>647,396</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(427,116)	(3,352,170)
Proceeds from sale of equipment	7,000	2,000
Capital contributions received	-	100,000
Increase in deferred financing costs	-	(72,696)
Decrease in deposits payable	(460)	(514,010)
Proceeds from issuance of debt	173,000	3,283,642
Proceeds from issuance of line-of-credit	-	785,000
Payment of principal on debt	(522,589)	(965,739)
Payment of interest on debt	<u>(182,525)</u>	<u>(111,304)</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(952,690)</u>	<u>(845,277)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in assets limited as to use or restricted	(276,153)	188,488
Investment income received	14,977	6,250
Rental income received	<u>36,880</u>	<u>39,583</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>(224,296)</u>	<u>234,321</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>52,025</b>	295,131
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>453,702</u>	<u>158,571</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 505,727</u>	<u>\$ 453,702</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (410,697)	\$ (432,978)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	811,188	668,184
Amortization	3,650	304
Provision for bad debts	265,472	218,848
Changes in assets and liabilities		
Receivables	68,496	(488,725)
Estimated third-party payor settlements	245,000	(90,000)
Supplies	(15,044)	(13,931)
Prepaid expense	54	72,918
Accounts payable	(399,973)	163,573
Accrued expenses	(26,662)	42,007
Deferred revenue	(6,595)	118,491
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 534,889</u>	<u>\$ 258,691</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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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 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, 2006 AND 2005**

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*Measurement Focus and Basis of Accounting*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

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 or restricted.

*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, 2006 AND 2005**

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*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 \$5,000 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

*Donated Assets*

Donated supplies; investments; and land, buildings, and equipment are recorded at fair value at date of donation, which then is treated as cost.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$30,513 and \$24,194 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

(continued on next page)

**PEOPLE'S MEMORIAL HOSPITAL**  
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*Deferred Financing Costs*

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

*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, 2006.

*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 succeeding year 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  
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*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, 2006 and 2005, were \$111,103 and \$198,990 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, 2004. 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**  
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**Medicaid:**

**Hospital:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 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 Payers:** 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient and resident service revenue, contractual adjustments, and policy discounts for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient and resident service revenue	<u>\$ 17,009,538</u>	<u>\$ 16,242,415</u>
Contractual adjustments		
Medicare	(3,035,052)	(2,949,298)
Medicaid	(623,011)	(624,572)
Other	<u>(952,668)</u>	<u>(906,356)</u>
Total contractual adjustments	<u>(4,610,731)</u>	<u>(4,480,226)</u>
Policy discounts	<u>(105,069)</u>	<u>(238,156)</u>
Net patient and resident service revenue	<u>12,293,738</u>	11,524,033
Provision for bad debts	<u>(265,472)</u>	<u>(218,848)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 12,028,266</u>	<u>\$ 11,305,185</u>

(continued on next page)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 4 – CASH AND DEPOSITS**

The Health Center's deposits in banks at June 30, 2006 and 2005, 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, 2006 and 2005, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Savings account	\$ 91,894	\$ 91,236
Money market account	352,826	82,285
Certificates of deposit	133,790	130,166
Accrued interest receivable	<u>1,369</u>	<u>39</u>
	<u>\$ 579,879</u>	<u>\$ 303,726</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, 2006 AND 2005**

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

A summary of land, buildings, and equipment at June 30, 2006, follows:

	June 30, 2005				June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 39,268	\$ -	\$ -	\$ -	\$ 39,268
Land improvements	223,045	37,805	-	-	260,850
Buildings	12,660,999	-	-	113,209	12,774,208
Equipment	4,121,744	279,632	29,619	-	4,371,757
Construction in progress	13,439	109,679	-	(113,209)	9,909
	<u>17,058,495</u>	<u>427,116</u>	<u>29,619</u>	<u>-</u>	<u>17,455,992</u>
Accumulated depreciation					
Land improvements	153,339	13,325	-	-	166,664
Buildings	4,244,604	467,624	-	-	4,712,228
Equipment	2,954,287	330,239	23,812	-	3,260,714
	<u>7,352,230</u>	<u>811,188</u>	<u>23,812</u>	<u>-</u>	<u>8,139,606</u>
Total land, buildings, and equipment, net	<u>\$ 9,706,265</u>	<u>\$ (384,072)</u>	<u>\$ 5,807</u>	<u>\$ -</u>	<u>\$ 9,316,386</u>

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

	June 30, 2004				June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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>

(continued on next page)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 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, 2006 and 2005, was \$207,062 and \$238,666, respectively.

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

<u>Year Ending June 30,</u>	
2007	\$ 34,468
2008	34,468
2009	<u>34,468</u>
Total minimum lease payments	<u>\$ 103,404</u>

**NOTE 7 – LINE OF CREDIT AND LONG-TERM DEBT**

	<u>2006</u>	<u>2005</u>
8.00% line of credit payable to bank, unsecured. Matures on December 1, 2006.	<u>\$ 82,984</u>	<u>\$ 577,427</u>

A schedule of changes in the Health Center's long-term debt for 2006 follows:

	<u>June 30 2005 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2006 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 through June 1, 2011	\$ 204,457	\$ -	\$ 27,228	\$ 177,229	\$ 29,487
4.5% Hospital Revenue Note, Series 2004, maturity date of May 1, 2025. Interest only payments through August 1, 2006, with principal payments starting September 1, 2006	3,056,064	128,000	-	3,184,064	91,900
8.0% note payable to Bank of Iowa for equipment, due in monthly installments of \$918 through June 1, 2011	<u>-</u>	<u>45,000</u>	<u>918</u>	<u>44,082</u>	<u>7,692</u>
	<u>\$ 3,260,521</u>	<u>\$ 173,000</u>	<u>\$ 28,146</u>	<u>3,405,375</u>	<u>\$ 129,079</u>
Less current maturities				<u>(129,079)</u>	
Long-term debt, less current maturities				<u>\$ 3,276,296</u>	

(continued on next page)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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>
2007	\$ 212,063	\$ 158,178	\$ 370,241
2008	155,185	150,145	305,330
2009	163,805	141,524	305,329
2010	172,947	132,382	305,329
2011	184,528	122,688	307,216
2012-2016	753,837	504,739	1,258,576
2017-2021	943,650	314,927	1,258,577
2022-2026	902,344	83,540	985,884
	<u>\$ 3,488,359</u>	<u>\$ 1,608,123</u>	<u>\$ 5,096,482</u>

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

	<u>June 30</u>			<u>June 30</u>	<u>Amounts</u>
	<u>2004</u>	<u>Additions</u>	<u>Payments</u>	<u>2005</u>	<u>Due Within</u>
	<u>Balance</u>			<u>Balance</u>	<u>One Year</u>
8.0% note payable to Mercy Medical Center for Medi-Tech Computer Software, due in monthly installments of \$3,550 through 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
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>	<u>3,260,521</u>	<u>\$ 35,732</u>
Less current maturities				<u>(35,732)</u>	
Long-term debt, less current maturities				<u>\$ 3,224,789</u>	

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**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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**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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$343,943, \$309,019, and \$303,215, 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, 2006, 2005, and 2004, were \$76,892, \$67,352, and \$64,785, respectively.

**NOTE 10 – CONTINGENCIES**

*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.

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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*Healthcare Legislation and Regulation*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient and resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

**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, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	30%	32%
Medicaid	1	4
Commercial insurance	27	29
Other third-party payors, patients, and residents	<u>42</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>

**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, 2006**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 654,253	\$ -	\$ 654,253	\$ 637,164	\$ 17,089
Estimated other revenues/ receipts	<u>12,904,694</u>	<u>609,105</u>	<u>13,513,799</u>	<u>15,752,836</u>	<u>(2,239,037)</u>
	13,558,947	609,105	14,168,052	16,390,000	(2,221,948)
Expenses/disbursements	<u>13,389,447</u>	<u>450,427</u>	<u>13,839,874</u>	<u>16,182,300</u>	<u>2,342,426</u>
Net	169,500	158,678	328,178	207,700	<u>\$ 120,478</u>
Balance beginning of year	<u>5,514,670</u>	<u>(4,757,242)</u>	<u>757,428</u>	<u>1,581,253</u>	
Balance end of year	<u>\$ 5,684,170</u>	<u>\$ (4,598,564)</u>	<u>\$ 1,085,606</u>	<u>\$ 1,788,953</u>	

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

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. The budget was not amended during the year ended June 30, 2006.



CPAs & BUSINESS ADVISORS

**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, except for the schedule of statistical information on page 34 marked "unaudited," 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  
July 19, 2006

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>PATIENT AND RESIDENT SERVICE REVENUE</b>		
Routine services - hospital	\$ 1,349,890	\$ 1,225,888
Routine services - nursing care center	2,272,647	1,961,245
Newborn nursery	-	32,429
Operating and recovery rooms	1,183,208	1,448,893
Delivery and labor rooms	-	12,400
Central services and supply	699,962	684,017
Emergency services	1,207,456	893,093
Laboratory and blood bank	2,428,067	2,193,340
Cardiac rehab	66,717	53,655
Electrocardiology	122,187	94,674
Radiology	2,898,070	2,940,683
Pharmacy	1,927,044	1,991,907
Anesthesiology	459,178	555,924
Respiratory therapy	319,844	365,969
Physical therapy	978,845	725,196
Speech and occupational therapy	198,431	166,746
Ambulance	633,106	580,700
Community care	375,989	514,646
	<u>17,120,641</u>	<u>16,441,405</u>
Charity care	<u>(111,103)</u>	<u>(198,990)</u>
Total patient and resident service revenue*	<u>\$ 17,009,538</u>	<u>\$ 16,242,415</u>
<b>*TOTAL PATIENT AND RESIDENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	\$ 7,160,250	\$ 7,675,658
Outpatient revenue	9,960,391	8,765,747
Charity care	<u>(111,103)</u>	<u>(198,990)</u>
Total patient and resident service revenue	<u>17,009,538</u>	<u>16,242,415</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(3,035,052)	(2,949,298)
Medicaid	(623,011)	(624,572)
Other	<u>(952,668)</u>	<u>(906,356)</u>
Total contractual adjustments	<u>(4,610,731)</u>	<u>(4,480,226)</u>
<b>POLICY DISCOUNTS</b>	<u>(105,069)</u>	<u>(238,156)</u>
<b>NET PATIENT AND RESIDENT SERVICE REVENUE</b>	<b>12,293,738</b>	<b>11,524,033</b>
<b>PROVISION FOR BAD DEBTS</b>	<u>(265,472)</u>	<u>(218,848)</u>
<b>NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)</b>	<u>\$ 12,028,266</u>	<u>\$ 11,305,185</u>

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Grants	\$ 266,749	\$ 246,090
Independent Living Center	187,549	158,378
The Wellness Center fees	176,577	52,539
Transcription fees	37,812	37,335
Cafeteria	24,284	20,159
Flu shot clinic	13,485	12,812
Nonpatient pharmacy sales	9,665	7,044
Laundry	5,036	5,463
Immunization clinic	3,579	5,721
Other nonpatient meals	2,383	2,096
Medical records transcript fees	1,768	1,005
Other	<u>54,622</u>	<u>8,690</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 783,509</u>	 <u>\$ 557,332</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 92,506	\$ 82,077
Supplies and other expenses	<u>9,421</u>	<u>11,935</u>
	<u>101,927</u>	<u>94,012</u>
<b>ROUTINE NURSING SERVICES</b>		
Salaries and wages	1,901,459	1,855,127
Supplies other expenses	<u>92,889</u>	<u>81,384</u>
	<u>1,994,348</u>	<u>1,936,511</u>
<b>SOCIAL SERVICES</b>		
Salaries and wages	48,341	51,411
Supplies other expenses	<u>251</u>	<u>189</u>
	<u>48,592</u>	<u>51,600</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	356,010	355,343
Supplies and other expenses	<u>238,017</u>	<u>328,443</u>
	<u>594,027</u>	<u>683,786</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	-	5,069
Supplies and other expenses	<u>-</u>	<u>329</u>
	<u>-</u>	<u>5,398</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	50,883	45,982
Supplies and other expenses	<u>13,056</u>	<u>18,764</u>
	<u>63,939</u>	<u>64,746</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	131,048	139,813
Supplies and other expenses	<u>296,599</u>	<u>197,689</u>
	<u>427,647</u>	<u>337,502</u>
<b>LABORATORY AND BLOOD BANK</b>		
Salaries and wages	300,644	309,627
Supplies and other expenses	<u>476,793</u>	<u>397,309</u>
	<u>777,437</u>	<u>706,936</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ELECTROCARDIOLOGY</b>		
Supplies and other expenses	<u>\$ 3,532</u>	<u>\$ 5,574</u>
<b>RADIOLOGY</b>		
Salaries and wages	<u>266,421</u>	238,290
Supplies and other expenses	<u>545,875</u>	<u>505,869</u>
	<u>812,296</u>	<u>744,159</u>
<b>PHARMACY</b>		
Salaries and wages	<u>101,132</u>	68,520
Supplies and other expenses	<u>511,107</u>	<u>477,541</u>
	<u>612,239</u>	<u>546,061</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>168,988</u>	<u>233,125</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	<u>67,462</u>	66,063
Supplies and other expenses	<u>42,552</u>	<u>42,523</u>
	<u>110,014</u>	<u>108,586</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	<u>338,727</u>	264,827
Supplies and other expenses	<u>64,646</u>	<u>36,167</u>
	<u>403,373</u>	<u>300,994</u>
<b>SPEECH AND OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>126,220</u>	<u>133,074</u>
<b>AMBULANCE</b>		
Salaries and wages	<u>144,846</u>	135,526
Supplies and other expenses	<u>28,727</u>	<u>19,306</u>
	<u>173,573</u>	<u>154,832</u>
<b>INDEPENDENT LIVING</b>		
Salaries and wages	<u>94,334</u>	90,865
Supplies and other expenses	<u>27,719</u>	<u>140,282</u>
	<u>122,053</u>	<u>231,147</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>COMMUNITY CARE</b>		
Salaries and wages	\$ 506,830	\$ 543,375
Supplies and other expenses	<u>58,219</u>	<u>65,407</u>
	<u>565,049</u>	<u>608,782</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	201,196	202,065
Supplies and other expenses	<u>43,260</u>	<u>44,737</u>
	<u>244,456</u>	<u>246,802</u>
<b>DIETARY</b>		
Salaries and wages	275,795	262,280
Supplies and other expenses	<u>239,963</u>	<u>215,306</u>
	<u>515,758</u>	<u>477,586</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	161,543	146,698
Supplies and other expenses	<u>519,937</u>	<u>347,965</u>
	<u>681,480</u>	<u>494,663</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	239,174	211,689
Supplies and other expenses	<u>32,245</u>	<u>23,306</u>
	<u>271,419</u>	<u>234,995</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	17,010	17,001
Supplies and other expenses	<u>88,596</u>	<u>98,735</u>
	<u>105,606</u>	<u>115,736</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	701,802	668,713
Supplies and other expenses	<u>511,244</u>	<u>494,520</u>
	<u>1,213,046</u>	<u>1,163,233</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	\$ 814,838	\$ 668,488
Insurance	186,624	167,911
Employee benefits	<u>2,083,991</u>	<u>1,779,256</u>
	<u>3,085,453</u>	<u>2,615,655</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 13,222,472</u>	 <u>\$ 12,295,495</u>

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
PATIENT AND RESIDENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,  
AND COLLECTION STATISTICS  
JUNE 30, 2006 AND 2005**

**ANALYSIS OF AGING**

Days Since Discharge	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
0 – 30 Days	\$ 1,320,952	53.91%	\$ 1,548,153	51.45%
1 – 2 Months	231,364	9.44	324,757	10.79
2 – 3 Months	166,258	6.78	201,570	6.70
3 – 6 Months	165,262	6.74	231,165	7.68
6 – 12 Months	470,597	19.20	357,937	11.89
Over 12 Months	96,136	3.93	345,571	11.49
	<u>2,450,569</u>	<u>100.00%</u>	3,009,153	<u>100.00%</u>
Less: Allowance for doubtful accounts	365,000		465,000	
Allowance for contractual adjustments	<u>617,000</u>		<u>740,000</u>	
Net	<u>\$ 1,468,569</u>		<u>\$ 1,804,153</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
BALANCE, BEGINNING OF YEAR	\$ 465,000	\$ 450,000
Add: Provision for bad debts	265,472	218,848
Recoveries of accounts written off	40,267	21,533
Less: Accounts written off	<u>(405,739)</u>	<u>(225,381)</u>
BALANCE, END OF YEAR	<u>\$ 365,000</u>	<u>\$ 465,000</u>

**COLLECTION STATISTICS**

	2006	2005
Net accounts receivable – patients and residents	\$ 1,468,569	\$ 1,804,153
Number of days charges outstanding (1)	44	51
Uncollectible accounts (2)	\$ 409,729	\$ 424,093
Percentage of uncollectible accounts to total charges	2.4%	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.

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SUPPLIES/PREPAID EXPENSE  
JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
SUPPLIES		
Central stores	\$ 16,077	\$ 16,128
Pharmacy	100,274	85,898
Dietary	<u>10,594</u>	<u>9,875</u>
Total	<u>\$ 126,945</u>	<u>\$ 111,901</u>
PREPAID EXPENSE		
Insurance	<u>\$ 14,969</u>	<u>\$ 15,023</u>

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2006**

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<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	\$ 31,071,000 \$ 8,375,000 \$ 5,000,000 \$ 4,000,000	\$ 99,391	06/15/07
EMC Insurance Co. #T222750	Employee dishonesty	\$ 500,000	\$ 1,215	06/15/07
Chubb-Federal Insurance Co. #7498-06-59	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 9,107	06/15/07
Physicians Insurance Co. #134277	Professional liability	\$ 1,000,000/ 3,000,000	\$ 30,184	08/14/06
	General liability	\$ 1,000,000/ 3,000,000	\$ 8,496	08/14/06
#142037	Umbrella excess liability	\$ 4,000,000/ 4,000,000	\$ 30,629	08/14/06
#134283	Professional liability - surgeon	\$ 3,000,000/ 3,000,000	\$ 22,875	08/14/06
Farm Bureau Financial Services #7211290	Workers' compensation	\$ 500,000	\$ 94,707	04/01/07
Executive Risk Indemnity Inc. #68029414	Directors' and officers' liability	\$ 1,000,000	\$ 8,400	06/15/07

**PEOPLE'S MEMORIAL HOSPITAL**  
**d/b/a BUCHANAN COUNTY HEALTH CENTER**  
**STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
<b>PATIENT DAYS</b>		
Hospital		
Acute	<b>1,407</b>	1,502
Swing-bed	<b>659</b>	434
Newborn	-	25
Nursing Care Center	<b>20,688</b>	19,178
<b>NUMBER OF BEDS</b>		
Hospital	<b>25</b>	25
Nursing Care Center	<b>59</b>	59
<b>PERCENTAGE OF OCCUPANCY</b>		
Hospital	<b>23%</b>	21%
Nursing Care Center	<b>96%</b>	89%
<b>DISCHARGES</b>		
Hospital (excluding newborn)		
Acute	<b>537</b>	575
Swing-bed	<b>79</b>	60
Nursing Care Center	<b>21</b>	32
<b>AVERAGE LENGTH OF STAY</b>		
Hospital (excluding newborn)		
Acute	<b>2.6</b>	2.6
Swing-bed	<b>8.3</b>	7.2
Nursing Care Center	<b>985.1</b>	599.3



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**

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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, 2006 and 2005, 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 July 19, 2006. 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-06 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 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. 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, 2006, 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.

We also noted a certain additional matter that we reported to management in a separate letter dated July 19, 2006.

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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
July 19, 2006

**PEOPLE'S MEMORIAL HOSPITAL  
d/b/a BUCHANAN COUNTY HEALTH CENTER  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

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

**REPORTABLE CONDITION:**

I-A-06     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-06     Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06     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-C-06     Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-D-06     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-E-06     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center's investment policy were noted.

II-G-06     Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health Center published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.