

FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006



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

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-5
BASIC FINANCIAL STATEMENTS	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	22
Notes to Required Supplementary Information – Budgetary Reporting	23
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	24
OTHER SUPPLEMENTARY INFORMATION	
Schedules	
Net Patient and Resident Service Revenue	25
Other Operating Revenues	26
Operating Expenses	27-30
Patient and Resident Receivables, Allowance for Doubtful Accounts, and Collection Statistics	31
Supplies/Prepaid Expense	32
Insurance	33
Statistical Information (Unaudited)	34
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	35-36
SCHEDULE OF FINDINGS	37-38

**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>		
Benjamin Riensche	Chairperson	2012
Susan White	Vice-Chairperson	2012
Connie Brown	Secretary	2010
Lans Flickinger	Treasurer	2010
Rudolph Leytze	Trustee	2008
<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, 2007 and 2006, 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 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, 2007 and 2006, 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 30, 2007, 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
August 30, 2007



Management's Discussion and Analysis

June 30, 2007

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 \$974,812 at June 30, 2007.
- The Health Center recorded an excess of revenues over expenses before other changes in net assets for fiscal year ending June 30, 2007, amounting to \$382,986.
- Net days in accounts receivable continue to be favorable at June 30, 2007.
- Total patient days amount to:
 - 1,477-Acute Care (5.0% increase)
 - 420- SNF Care (36.3% decline)
 - 17,578 LTC (15.0% decline)
 - 522 Operations (30.2% increase)
 - 4,793 Emergency Room Visits (5.2% 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, 2007 indicates total assets of \$14,865,746, total liabilities amounting to \$8,650,590 and net assets of \$6,215,156. Total current assets were \$2,975,687 and current liabilities \$2,000,875, resulting in a current ratio of 1.49. During the Health Center's June 30, 2007 fiscal year, \$425,000 was transferred from the general fund into our funded depreciation savings account.

The Statement of Revenues, Expenses, and Changes in Net Assets indicates total net patient and resident service revenue remaining constant with the previous fiscal year and total expenses of \$12.9 million, resulting in a loss from operations of \$319,680. A net non-operating gain of \$702,666 brings the excess of revenues over expenses to \$382,986.

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.

Capital Projects:

Buchanan County Health Center did not have any major capital purchases during the current fiscal year. The Health Center's goal was to increase the funded depreciation savings account of which \$ 425,000 was transferred from the general fund into funded depreciation savings.

Capital Assets and Debt Administration:

The Health Center's total net capital assets at June 30, 2007, amounted to \$8.6 million. This investment includes land, buildings, and equipment. With the favorable interest rates available and the intentions of updating our Emergency Room and Operating Suites in 2008, the Health Center borrowed the remaining funds available from the 2004 Series issue.

Department Changes:

After several years of providing and serving Buchanan County Health Center, the employed surgeon retired from practice. A surgeon from Waterloo has since provided service to the residents of Buchanan County at the Health Center.

On October 1, 2006, the ambulance service that had been operated as a department of Buchanan County Health Center was sold to Area Ambulance Authority in Cedar Rapids, IA.

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 225 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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 341,857	\$ 505,727
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,069,000 in 2007 and \$982,000 in 2006	1,539,530	1,468,569
Succeeding year property tax	801,335	755,500
Estimated third-party payor settlements	52,000	-
Other	89,802	29,883
Supplies	128,610	126,945
Prepaid expense	<u>22,553</u>	<u>14,969</u>
Total current assets	<u>2,975,687</u>	<u>2,901,593</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board/donor for capital improvements and debt redemption	<u>3,056,451</u>	<u>579,879</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>8,620,212</u>	<u>9,316,386</u>
OTHER ASSETS		
Beneficial interest in charitable trust	148,000	-
Deferred financing costs, net of accumulated amortization of \$7,604 in 2007 and \$3,954 in 2006	<u>65,396</u>	<u>69,046</u>
Total other assets	<u>213,396</u>	<u>69,046</u>
Total assets	<u>\$ 14,865,746</u>	<u>\$ 12,866,904</u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit - Note 7	\$ -	\$ 82,984
Current maturities of long-term debt - Note 7	214,048	129,079
Accounts payable		
Trade	292,912	172,250
Estimated third-party payor settlements	-	105,000
Accrued expenses		
Salaries and wages	91,419	78,562
Vacation	399,023	419,916
Payroll taxes and other	103,549	116,591
Deferred revenue	98,589	111,896
Deferred revenue for succeeding year property tax receivable	801,335	755,500
	<u>2,000,875</u>	<u>1,971,778</u>
NONCURRENT LIABILITIES		
Deposits - Note 8	2,016,660	1,934,660
Long-term debt, less current maturities - Note 7	4,633,055	3,276,296
	<u>6,649,715</u>	<u>5,210,956</u>
	<u>8,650,590</u>	<u>7,182,734</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,756,449	3,893,367
Restricted		
Expendable for future capital acquisitions	100,000	100,000
Nonexpendable beneficial interest in charitable trust	148,000	-
Unrestricted	4,210,707	1,690,803
	<u>6,215,156</u>	<u>5,684,170</u>
	<u>\$ 14,865,746</u>	<u>\$ 12,866,904</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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient and resident service revenue (net of provision for bad debts of \$487,875 in 2007 and \$265,472 in 2006) - Notes 2 and 3	\$ 11,900,393	\$ 12,028,266
Other operating revenues	<u>735,586</u>	<u>783,509</u>
TOTAL OPERATING REVENUES	<u>12,635,979</u>	<u>12,811,775</u>
OPERATING EXPENSES		
Salaries and wages	5,846,789	5,997,163
Supplies and other expenses	6,306,961	6,410,471
Depreciation and amortization	<u>801,909</u>	<u>814,838</u>
TOTAL OPERATING EXPENSES	<u>12,955,659</u>	<u>13,222,472</u>
OPERATING LOSS	<u>(319,680)</u>	<u>(410,697)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	755,942	654,253
Noncapital grants and contributions	27,373	39,869
Investment income	105,237	14,977
Interest expense	(227,713)	(166,975)
Rental income	38,135	36,880
Gain on disposal of equipment	<u>3,692</u>	<u>1,193</u>
NET NONOPERATING REVENUES	<u>702,666</u>	<u>580,197</u>
REVENUES IN EXCESS OF EXPENSES BEFORE OTHER CHANGES	<u>382,986</u>	<u>169,500</u>
OTHER CHANGES IN NET ASSETS		
Beneficial interest in charitable trust	<u>148,000</u>	<u>-</u>
INCREASE IN NET ASSETS	<u>530,986</u>	<u>169,500</u>
NET ASSETS BEGINNING OF YEAR	<u>5,684,170</u>	<u>5,514,670</u>
NET ASSETS END OF YEAR	<u>\$ 6,215,156</u>	<u>\$ 5,684,170</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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient and resident service revenue	\$ 11,659,125	\$ 12,602,255
Other receipts	716,862	781,893
Payments of salaries and wages	(5,854,825)	(5,983,833)
Payments of supplies and other expenses	<u>(6,208,590)</u>	<u>(6,865,426)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>312,572</u>	<u>534,889</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	755,942	654,253
Noncapital grants and contributions received	<u>27,373</u>	<u>39,869</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>783,315</u>	<u>694,122</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(154,823)	(427,116)
Proceeds from sale of equipment	15,235	7,000
Increase (decrease) in deposits payable	82,000	(460)
Proceeds from issuance of debt	1,630,136	173,000
Payment of principal on debt	(271,392)	(522,589)
Payment of interest on debt	<u>(227,713)</u>	<u>(182,525)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,073,443</u>	<u>(952,690)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(2,476,572)	(276,153)
Investment income received	105,237	14,977
Rental income received	<u>38,135</u>	<u>36,880</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(2,333,200)</u>	<u>(224,296)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(163,870)	52,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>505,727</u>	<u>453,702</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 341,857</u>	<u>\$ 505,727</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (319,680)	\$ (410,697)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	798,259	811,188
Amortization	3,650	3,650
Provision for bad debts	487,875	265,472
Changes in assets and liabilities		
Receivables	(577,560)	68,496
Estimated third-party payor settlements	(157,000)	245,000
Supplies	(1,665)	(15,044)
Prepaid expense	(7,584)	54
Accounts payable	120,662	(399,973)
Accrued expenses	(21,078)	(26,662)
Deferred revenue	(13,307)	(6,595)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 312,572</u>	<u>\$ 534,889</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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. 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 is an Iowa nonprofit corporation and 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, 2007 AND 2006

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 original maturities 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, 2007 AND 2006

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. Amortization is included in depreciation and amortization in the financial statements. 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 \$30,283 and \$30,513 for advertising costs for the years ended June 30, 2007 and 2006, 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, 2007 AND 2006

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, 2007.

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
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 items from the 2006 financial statements have been reclassified to conform to the current year presentation.

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, 2007 and 2006, were \$119,433 and \$111,103 respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$78,564 and \$73,084, 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 year ended June 30, 2005. 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, 2007 AND 2006

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, 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 10%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2007, and 46% and 10%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2006.

A summary of net patient and resident service revenue, contractual adjustments, and policy discounts for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient and resident service revenue	\$ 17,077,656	\$ 17,009,538
Contractual adjustments		
Medicare	(3,025,533)	(3,035,052)
Medicaid	(606,050)	(623,011)
Other	<u>(1,002,611)</u>	<u>(952,668)</u>
Total contractual adjustments	<u>(4,634,194)</u>	<u>(4,610,731)</u>
Policy discounts	<u>(55,194)</u>	<u>(105,069)</u>
Net patient and resident service revenue	12,388,268	12,293,738
Provision for bad debts	<u>(487,875)</u>	<u>(265,472)</u>
Net patient and resident service revenue (net of provision for bad debts)	<u>\$ 11,900,393</u>	<u>\$ 12,028,266</u>

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 – CASH AND DEPOSITS

The Health Center's deposits in banks at June 30, 2007 and 2006, 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, 2007 and 2006, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Savings and money market accounts	\$ 1,207,203	\$ 444,720
Certificates of deposit	1,814,890	133,790
Accrued interest receivable	<u>34,358</u>	<u>1,369</u>
	<u>\$ 3,056,451</u>	<u>\$ 579,879</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, 2007 AND 2006

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2007 and 2006, was as follows:

	June 30, 2006 Balance	Additions	Deductions	Transfers	June 30, 2007 Balance
Cost					
Land	\$ 39,268	\$ -	\$ -	\$ -	\$ 39,268
Land improvements	260,850	-	-	-	260,850
Buildings	12,774,208	-	-	-	12,774,208
Equipment	4,371,757	89,388	227,687	-	4,233,458
Construction in progress	9,909	65,435	-	-	75,344
	<u>17,455,992</u>	<u>\$ 154,823</u>	<u>\$ 227,687</u>	<u>\$ -</u>	<u>17,383,128</u>
Accumulated depreciation					
Land improvements	166,664	\$ 15,405	\$ -	\$ -	182,069
Buildings	4,712,228	468,861	-	-	5,181,089
Equipment	3,260,714	313,993	174,949	-	3,399,758
	<u>8,139,606</u>	<u>\$ 798,259</u>	<u>\$ 174,949</u>	<u>\$ -</u>	<u>8,762,916</u>
Total land, buildings, and equipment, net	<u>\$ 9,316,386</u>				<u>\$ 8,620,212</u>
	June 30, 2005 Balance	Additions	Deductions	Transfers	June 30, 2006 Balance
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>\$ 9,316,386</u>

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Construction in progress at June 30, 2007, consists mainly of architect fees for the emergency room remodel project. As of June 30, 2007, requests for bids for the project have not been sent out.

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, 2007 and 2006, was \$396,577 and \$384,602, respectively.

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

<u>Year Ending June 30,</u>	
2008	34,468
2009	<u>34,468</u>
Total minimum lease payments	<u>\$ 68,936</u>

NOTE 7 – LINE OF CREDIT AND LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
8.00% line of credit payable to bank, unsecured. Matured on December 1, 2006.	<u>\$ -</u>	<u>\$ 82,984</u>

A schedule of changes in the Health Center's long-term debt for 2007 and 2006 follows:

	<u>June 30 2006 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2007 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	\$ 177,229	\$ -	\$ 29,487	\$ 147,742	\$ 31,935
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	3,184,064	1,630,136	152,359	4,661,841	173,782
8.0% note payable to Bank of Iowa for equipment, due in monthly installments of \$918 through June 1, 2011	44,082	-	6,562	37,520	8,331
	<u>\$ 3,405,375</u>	<u>\$ 1,630,136</u>	<u>\$ 188,408</u>	<u>4,847,103</u>	<u>\$ 214,048</u>
Less current maturities				<u>(214,048)</u>	
Long-term debt, less current maturities				<u>\$ 4,633,055</u>	

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Long-term debt requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 214,048	\$ 220,214	\$ 434,262
2009	225,373	208,889	434,262
2010	237,343	196,919	434,262
2011	253,012	184,266	437,278
2012	207,985	172,663	380,648
2013-2017	1,192,335	710,907	1,903,242
2018-2022	1,492,560	410,682	1,903,242
2023-2025	<u>1,024,447</u>	<u>54,059</u>	<u>1,078,506</u>
	<u>\$ 4,847,103</u>	<u>\$ 2,158,599</u>	<u>\$ 7,005,702</u>

	<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 May 1, 2006, with principal payments starting June 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	-	45,000	918	44,082	7,692
	<u>\$ 3,260,521</u>	<u>\$ 173,000</u>	<u>\$ 28,146</u>	3,405,375	<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, 2007 AND 2006**

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, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$329,395, \$343,943, and \$309,019, 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, 2007, 2006, and 2005, were \$72,127, \$76,892, and \$67,352, 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, 2007 AND 2006**

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 the 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 regulatory 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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	30%	30%
Medicaid	2	1
Commercial insurance	34	27
Other third-party payors, patients, and residents	<u>34</u>	<u>42</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, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 755,942	\$ -	\$ 755,942	\$ 755,500	\$ 442
Estimated other revenues/receipts	<u>12,958,416</u>	<u>1,315,687</u>	<u>14,274,103</u>	<u>19,632,400</u>	<u>(5,358,297)</u>
	13,714,358	1,315,687	15,030,045	20,387,900	(5,357,855)
Expenses/disbursements	<u>13,183,372</u>	<u>(466,029)</u>	<u>12,717,343</u>	<u>22,306,900</u>	<u>9,589,557</u>
Net	530,986	1,781,716	2,312,702	(1,919,000)	<u>\$ 4,231,702</u>
Balance beginning of year	<u>5,684,170</u>	<u>(4,598,564)</u>	<u>1,085,606</u>	<u>4,748,723</u>	
Balance end of year	<u>\$ 6,215,156</u>	<u>\$ (2,816,848)</u>	<u>\$ 3,398,308</u>	<u>\$ 2,829,723</u>	

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007**

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 347A 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, 2007.

For the year ended June 30, 2007, the Health Center's expenditures did not exceed the amount budgeted.



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, 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.

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

Dubuque, Iowa
August 30, 2007

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PATIENT AND RESIDENT SERVICE REVENUE		
Routine services - hospital	\$ 1,382,237	\$ 1,349,890
Routine services - nursing care center	2,047,940	2,272,647
Operating and recovery rooms	1,240,247	1,183,208
Central services and supply	797,591	699,962
Emergency services	1,569,694	1,207,456
Laboratory and blood bank	2,642,150	2,428,067
Cardiac rehab	81,577	66,717
Electrocardiology	179,291	122,187
Radiology	3,562,454	2,898,070
Pharmacy	1,617,305	1,927,044
Anesthesiology	410,927	459,178
Respiratory therapy	344,845	319,844
Physical therapy	954,707	978,845
Speech and occupational therapy	177,849	198,431
Ambulance	182,463	633,106
Community care	5,812	375,989
	<u>17,197,089</u>	<u>17,120,641</u>
Charity care	(119,433)	(111,103)
Total patient and resident service revenue*	<u>\$ 17,077,656</u>	<u>\$ 17,009,538</u>
 *TOTAL PATIENT AND RESIDENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 7,212,944	\$ 7,160,250
Outpatient revenue	9,984,145	9,960,391
Charity care	(119,433)	(111,103)
Total patient and resident service revenue	<u>17,077,656</u>	<u>17,009,538</u>
 CONTRACTUAL ADJUSTMENTS		
Medicare	(3,025,533)	(3,035,052)
Medicaid	(606,050)	(623,011)
Other	(1,002,611)	(952,668)
Total contractual adjustments	<u>(4,634,194)</u>	<u>(4,610,731)</u>
 POLICY DISCOUNTS		
	<u>(55,194)</u>	<u>(105,069)</u>
 NET PATIENT AND RESIDENT SERVICE REVENUE		
	12,388,268	12,293,738
PROVISION FOR BAD DEBTS	<u>(487,875)</u>	<u>(265,472)</u>
 NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)		
	<u>\$ 11,900,393</u>	<u>\$ 12,028,266</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Independent Living Center	\$ 244,185	\$ 187,549
Grants	196,138	266,749
The Wellness Center fees	167,264	176,577
Transcription fees	37,530	37,812
Flu shot clinic	27,415	13,485
Cafeteria	23,434	24,284
Laundry	5,878	5,036
Nonpatient pharmacy sales	4,587	9,665
Immunization clinic	4,471	3,579
Other nonpatient meals	2,936	2,383
Medical records transcript fees	2,864	1,768
Other	<u>18,884</u>	<u>54,622</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 735,586</u>	 <u>\$ 783,509</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 97,222	\$ 92,506
Supplies and other expenses	<u>6,407</u>	<u>9,421</u>
	<u>103,629</u>	<u>101,927</u>
ROUTINE NURSING SERVICES		
Salaries and wages	1,911,288	1,901,459
Supplies other expenses	<u>110,449</u>	<u>92,889</u>
	<u>2,021,737</u>	<u>1,994,348</u>
SOCIAL SERVICES		
Salaries and wages	45,320	48,341
Supplies other expenses	<u>592</u>	<u>251</u>
	<u>45,912</u>	<u>48,592</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	314,337	356,010
Supplies and other expenses	<u>368,966</u>	<u>238,017</u>
	<u>683,303</u>	<u>594,027</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	55,619	50,883
Supplies and other expenses	<u>13,538</u>	<u>13,056</u>
	<u>69,157</u>	<u>63,939</u>
EMERGENCY SERVICES		
Salaries and wages	143,618	131,048
Supplies and other expenses	<u>441,669</u>	<u>296,599</u>
	<u>585,287</u>	<u>427,647</u>
LABORATORY AND BLOOD BANK		
Salaries and wages	324,505	300,644
Supplies and other expenses	<u>455,031</u>	<u>476,793</u>
	<u>779,536</u>	<u>777,437</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ELECTROCARDIOLOGY		
Supplies and other expenses	<u>\$ 17,079</u>	<u>\$ 3,532</u>
RADIOLOGY		
Salaries and wages	<u>290,300</u>	266,421
Supplies and other expenses	<u>571,316</u>	<u>545,875</u>
	<u>861,616</u>	<u>812,296</u>
PHARMACY		
Salaries and wages	<u>134,413</u>	101,132
Supplies and other expenses	<u>405,696</u>	<u>511,107</u>
	<u>540,109</u>	<u>612,239</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>160,421</u>	<u>168,988</u>
RESPIRATORY THERAPY		
Salaries and wages	<u>71,875</u>	67,462
Supplies and other expenses	<u>32,082</u>	<u>42,552</u>
	<u>103,957</u>	<u>110,014</u>
PHYSICAL THERAPY		
Salaries and wages	<u>399,723</u>	338,727
Supplies and other expenses	<u>48,645</u>	<u>64,646</u>
	<u>448,368</u>	<u>403,373</u>
SPEECH AND OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>113,985</u>	<u>126,220</u>
AMBULANCE		
Salaries and wages	<u>73,349</u>	144,846
Supplies and other expenses	<u>10,686</u>	<u>28,727</u>
	<u>84,035</u>	<u>173,573</u>
INDEPENDENT LIVING		
Salaries and wages	<u>83,135</u>	94,334
Supplies and other expenses	<u>32,182</u>	<u>27,719</u>
	<u>115,317</u>	<u>122,053</u>

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
COMMUNITY CARE		
Salaries and wages	\$ 226,477	\$ 506,830
Supplies and other expenses	<u>20,012</u>	<u>58,219</u>
	<u>246,489</u>	<u>565,049</u>
MEDICAL RECORDS		
Salaries and wages	191,127	201,196
Supplies and other expenses	<u>51,792</u>	<u>43,260</u>
	<u>242,919</u>	<u>244,456</u>
DIETARY		
Salaries and wages	276,362	275,795
Supplies and other expenses	<u>216,638</u>	<u>239,963</u>
	<u>493,000</u>	<u>515,758</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	169,467	161,543
Supplies and other expenses	<u>474,663</u>	<u>519,937</u>
	<u>644,130</u>	<u>681,480</u>
HOUSEKEEPING		
Salaries and wages	228,394	239,174
Supplies and other expenses	<u>30,683</u>	<u>32,245</u>
	<u>259,077</u>	<u>271,419</u>
LAUNDRY AND LINEN		
Salaries and wages	17,422	17,010
Supplies and other expenses	<u>81,463</u>	<u>88,596</u>
	<u>98,885</u>	<u>105,606</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	792,836	701,802
Supplies and other expenses	<u>552,787</u>	<u>511,244</u>
	<u>1,345,623</u>	<u>1,213,046</u>

(continued)

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	\$ 801,909	\$ 814,838
Insurance	184,160	186,624
Employee benefits	<u>1,906,019</u>	<u>2,083,991</u>
	<u>2,892,088</u>	<u>3,085,453</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,955,659</u>	<u>\$ 13,222,472</u>

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES, ALLOWANCE FOR
DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS
JUNE 30, 2007 AND 2006**

ANALYSIS OF AGING

Days Since Discharge	2007		2006	
	Amount	Percent to Total	Amount	Percent to Total
0 – 30 Days	\$ 1,569,588	60.17%	\$ 1,320,952	53.91%
1 – 2 Months	448,581	17.20	231,364	9.44
2 – 3 Months	153,858	5.90	166,258	6.78
3 – 6 Months	127,297	4.88	165,262	6.74
6 – 12 Months	233,582	8.95	470,597	19.20
Over 12 Months	75,624	2.90	96,136	3.93
	<u>2,608,530</u>	<u>100.00%</u>	2,450,569	<u>100.00%</u>
Less: Allowance for doubtful accounts	397,000		365,000	
Allowance for contractual adjustments	<u>672,000</u>		<u>617,000</u>	
Net	<u>\$ 1,539,530</u>		<u>\$ 1,468,569</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
BALANCE, BEGINNING OF YEAR	\$ 365,000	\$ 465,000
Add: Provision for bad debts	487,875	265,472
Recoveries of accounts written off	40,177	40,267
Less: Accounts written off	<u>(496,052)</u>	<u>(405,739)</u>
BALANCE, END OF YEAR	<u>\$ 397,000</u>	<u>\$ 365,000</u>

COLLECTION STATISTICS

	2007	2006
Net accounts receivable – patients and residents	\$ 1,539,530	\$ 1,468,569
Number of days charges outstanding (1)	44	44
Uncollectible accounts (2)	\$ 632,751	\$ 409,729
Percentage of uncollectible accounts to total charges	3.7%	2.4%

(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
SCHEDULES OF SUPPLIES/PREPAID EXPENSE
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLIES		
Pharmacy	\$ 92,112	\$ 100,274
Central stores	21,630	16,077
Dietary	<u>14,868</u>	<u>10,594</u>
Total	<u>\$ 128,610</u>	<u>\$ 126,945</u>
PREPAID EXPENSE		
Insurance	<u>\$ 22,553</u>	<u>\$ 14,969</u>

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2007

<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	\$ 87,773	06/15/08
EMC Insurance Co. #T222750	Employee dishonesty	\$ 500,000	\$ 1,137	06/15/08
Chubb-Federal Insurance Co. #7498-06-59	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 4,990	06/15/08
Physicians Insurance Co. #134277	Professional liability	\$ 1,000,000/ 3,000,000	\$ 36,024	08/14/07
#134276	General liability	\$ 1,000,000/ 3,000,000	\$ 9,802	08/14/07
#142037	Umbrella excess liability	\$ 4,000,000/ 4,000,000	\$ 44,437	08/14/07
#134283	Professional liability - surgeon	\$ 3,000,000/ 3,000,000	\$ 25,087	08/14/07
Farm Bureau Financial Services #7211290	Workers' compensation	\$ 500,000	\$ 86,728	04/01/08
Executive Risk Indemnity Inc. #68029414	Directors' and officers' liability	\$ 1,000,000	\$ 8,400	06/15/08

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Hospital		
Acute	1,477	1,407
Swing-bed	420	659
Nursing Care Center	17,578	20,688
NUMBER OF BEDS		
Hospital	25	25
Nursing Care Center	59	59
PERCENTAGE OF OCCUPANCY		
Hospital	21%	23%
Nursing Care Center	82%	96%
DISCHARGES		
Hospital		
Acute	533	537
Swing-bed	68	79
Nursing Care Center	23	21
AVERAGE LENGTH OF STAY		
Hospital		
Acute	2.8	2.6
Swing-bed	6.2	8.3
Nursing Care Center	764	985



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, 2007 and 2006, 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 30, 2007. 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 People's Memorial Hospital's, d/b/a Buchanan County Health Center, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of People's Memorial Hospital's, d/b/a Buchanan County Health Center, internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of People's Memorial Hospital's, d/b/a Buchanan County Health Center, internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects People's Memorial Hospital's, d/b/a Buchanan County Health Center, ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of People's Memorial Hospital's, d/b/a Buchanan County Health Center, financial statements that is more than inconsequential will not be prevented or detected by People's Memorial Hospital's, d/b/a Buchanan County Health Center, internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

35

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by People's Memorial Hospital's, d/b/a Buchanan County Health Center, internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

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, 2007, 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 August 30, 2007.

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 "Erik Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 30, 2007

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 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 – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07 Preparation of Financial Statements – The Health Center does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Health Center's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 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-07 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-07 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-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07 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.



CPAs & BUSINESS ADVISORS

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

We have audited the financial statements of **People's Memorial Hospital, d/b/a Buchanan County Health Center**, for the year ended June 30, 2007, and have issued our report thereon dated August 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated May 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of **People's Memorial Hospital, d/b/a Buchanan County Health Center**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **People's Memorial Hospital's, d/b/a Buchanan County Health Center**, compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **People's Memorial Hospital, d/b/a Buchanan County Health Center**, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Health Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient and resident receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Health Center's financial reporting process (that is, cause future financial statements to be materially misstated). Audit adjustments that, in our judgment, indicate matters that could have a significant effect on the Health Center's financial reporting process are listed individually below. All of the adjustments we proposed were posted by the Health Center.

We discussed all adjustments to the financial statements with the Health Center's staff during the audit. The following adjustments were made during the fiscal year 2007 audit:

Increase in net assets prior to audit adjustments	\$	190,818
To adjust accrued vacation		(30,513)
To record interest in a charitable trust		148,000
To record additional accounts payable		(14,422)
To adjust allowance for contractals, allowance for doubtful accounts and third-party payor settlements		237,837
Other adjustments		<u>(734)</u>
Increase in net assets as reported	\$	<u>530,986</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Health Center’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Health Center’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Other Comments

We have included an additional comment regarding the Health Center’s operations.

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

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to **People’s Memorial Hospital, d/b/a Buchanan County Health Center**.

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

Dubuque, Iowa
August 30, 2007

xc: Mr. Robert J. Richard, CEO

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
YEAR ENDED JUNE 30, 2007
OTHER COMMENTS

Risk Assessment Audit Standards

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on the Health Center's audit.