

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008



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

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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, 2009 and 2008, 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, 2009 and 2008, 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 September 1, 2009, 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 audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 24 and 25 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
September 1, 2009



Management's Discussion and Analysis June 30, 2009

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 activities of our facility. We encourage readers to consider this information in conjunction with the subsequent audited financial statements, which follows.

Financial Highlights:

- The Health Center's current assets exceeded its current liabilities by \$1,687,959 at June 30, 2009
- The Health Center recorded an excess of revenues over expenses for fiscal year ending June 30, 2009 amounting to \$2,039,750
- Gross Outpatient charges increased 12.5% during fiscal year 2009
- Total operating expenses increased 5.8% from the previous fiscal year
- Net days in accounts receivable continue to be very favorable at 32 on June 30, 2009
- Total patient days amount to
 - 1,117-Acute Care (20.9% decline)
 - 512-SNF Care (32.3% increase)
 - 13,887 LTC (14.3% decline)
 - 5,624 Emergency Room Visits (14.8% increase)
 - 52,672 Lab tests (2.2% increase)

Overview of the Financial Statements:

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

The Balance Sheet at June 30, 2009 indicates total assets of \$ 18,958,176, total liabilities \$ 9,308,036 and net assets of \$ 9,650,140.

The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient revenues increasing 10.3% over the previous fiscal year, total expenses of approximately \$14 million resulting in a gain from operations \$1,208,085. A net Non-operating gain of \$831,665 brings the excess of revenues over expenses to \$ 2,039,750.

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

New Capital Project:

Buchanan County Health Center completed the renovation of the nursing home wing during the current fiscal year. The first of the three phase renovation and construction Emergency Room and Surgery project began in March 2009.

Capital Assets and Debt Administration:

The Health Center's total net capital assets at June 30, 2009 amounted to approximately \$11.0 million. This investment includes land, buildings, and equipment.

Total outstanding long-term debt at June 30, 2009 was approximately \$4.9 million.

Services:

The Health Center began offering 24/7 provider coverage in our Emergency Room on September 1, 2008. This increase in service has resulted in a 14.8% increase of emergency room visits.

Renovation and transformation of the long-term care wing into the purchasing and store room was completed on January 1, 2009.

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 230 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
1600 First Street East
Independence, IA 50644

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|---|--------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,132,747 | \$ 2,038,507 |
| Receivables | | |
| Patient and resident, net of estimated uncollectibles of \$1,625,000 in 2009 and \$1,500,000 in 2008 | 1,272,038 | 1,455,048 |
| Succeeding year property tax | 894,400 | 846,093 |
| Other | 32,710 | 32,444 |
| Supplies | 155,612 | 149,911 |
| Prepaid expense | <u>33,488</u> | <u>9,790</u> |
| Total current assets | <u>4,520,995</u> | <u>4,531,793</u> |
| ASSETS LIMITED AS TO USE OR RESTRICTED | | |
| Investments | | |
| Restricted under debt agreements | 45,800 | 36,200 |
| By board/donor for capital improvements | <u>3,198,294</u> | <u>3,553,372</u> |
| Total assets limited as to use or restricted | <u>3,244,094</u> | <u>3,589,572</u> |
| LAND, BUILDINGS, AND EQUIPMENT, net - Note 5 | <u>10,986,991</u> | <u>8,587,909</u> |
| OTHER ASSETS | | |
| Beneficial interest in charitable trust | 148,000 | 148,000 |
| Deferred financing costs, net of accumulated amortization of \$14,904 in 2009 and \$11,254 in 2008 | <u>58,096</u> | <u>61,746</u> |
| Total other assets | <u>206,096</u> | <u>209,746</u> |
| Total assets | <u>\$ 18,958,176</u> | <u>\$ 16,919,020</u> |

See notes to financial statements.

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt - Note 7 | \$ 337,233 | \$ 225,373 |
| Accounts payable | | |
| Trade | 314,223 | 387,138 |
| Construction | 437,552 | - |
| Estimated third-party payor settlements | 40,000 | 825,000 |
| Accrued expenses | | |
| Salaries and wages | 150,337 | 123,285 |
| Vacation | 454,622 | 399,044 |
| Payroll taxes and other | 101,120 | 105,935 |
| Deferred revenue | 103,549 | 91,165 |
| Deferred revenue for succeeding year property tax receivable | 894,400 | 846,093 |
| | <u>2,833,036</u> | <u>3,003,033</u> |
| NONCURRENT LIABILITIES | | |
| Deposits - Note 8 | 1,921,450 | 1,901,250 |
| Long-term debt, less current maturities - Note 7 | 4,553,550 | 4,404,347 |
| | <u>6,475,000</u> | <u>6,305,597</u> |
| | <u>9,308,036</u> | <u>9,308,630</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 4,174,758 | 2,056,939 |
| Restricted | | |
| Expendable for future capital acquisitions | - | 100,000 |
| Expendable for debt service | 45,800 | 36,200 |
| Nonexpendable beneficial interest in charitable trust | 148,000 | 148,000 |
| Unrestricted | 5,281,582 | 5,269,251 |
| | <u>9,650,140</u> | <u>7,610,390</u> |
| | <u>\$ 18,958,176</u> | <u>\$ 16,919,020</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, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| Net patient and resident service revenue (net of provision for bad debts of \$623,905 in 2009 and \$812,621 in 2008) - Notes 2 and 3 | \$ 14,282,984 | \$ 12,951,807 |
| Other operating revenues | <u>727,205</u> | <u>695,508</u> |
| TOTAL OPERATING REVENUES | <u>15,010,189</u> | <u>13,647,315</u> |
| OPERATING EXPENSES | | |
| Salaries and wages | 6,164,713 | 5,826,498 |
| Supplies and other expenses | 6,791,996 | 6,463,140 |
| Depreciation and amortization | <u>845,395</u> | <u>755,281</u> |
| TOTAL OPERATING EXPENSES | <u>13,802,104</u> | <u>13,044,919</u> |
| OPERATING INCOME | <u>1,208,085</u> | <u>602,396</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| County tax revenue | 846,083 | 801,970 |
| Noncapital grants and contributions | 26,983 | 29,212 |
| Investment income | 133,164 | 138,236 |
| Interest expense | (215,495) | (216,880) |
| Rental income | 40,480 | 40,300 |
| Gain on disposal of equipment | <u>450</u> | <u>-</u> |
| NET NONOPERATING REVENUES | <u>831,665</u> | <u>792,838</u> |
| REVENUES IN EXCESS OF EXPENSES | 2,039,750 | 1,395,234 |
| NET ASSETS BEGINNING OF YEAR | <u>7,610,390</u> | <u>6,215,156</u> |
| NET ASSETS END OF YEAR | <u>\$ 9,650,140</u> | <u>\$ 7,610,390</u> |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts of patient and resident service revenue | \$ 13,693,378 | \$ 13,905,865 |
| Other receipts | 726,939 | 752,866 |
| Payments of salaries and wages | (6,082,083) | (5,794,611) |
| Payments of supplies and other expenses | <u>(6,491,418)</u> | <u>(6,375,066)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,846,816</u> | <u>2,489,054</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| County tax revenue received | 846,083 | 801,970 |
| Noncapital grants and contributions received | <u>26,983</u> | <u>29,212</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>873,066</u> | <u>831,182</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of property and equipment | (2,683,806) | (719,328) |
| Proceeds from sale of equipment | 1,000 | - |
| Increase (decrease) in deposits payable | 20,200 | (115,410) |
| Payment of principal on debt | (266,663) | (217,383) |
| Payment of interest on debt | <u>(215,495)</u> | <u>(216,880)</u> |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(3,144,764)</u> | <u>(1,269,001)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Increase) decrease in assets limited as to use or restricted | 345,478 | (1,219,513) |
| Investment income received | 133,164 | 138,236 |
| Rental income received | <u>40,480</u> | <u>40,300</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | <u>519,122</u> | <u>(1,040,977)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 94,240 | 1,010,258 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>2,038,507</u> | <u>1,028,249</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 2,132,747</u> | <u>\$ 2,038,507</u> |

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------------------|-------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 1,208,085 | \$ 602,396 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 841,745 | 751,631 |
| Amortization | 3,650 | 3,650 |
| Provision for bad debts | 623,905 | 812,621 |
| Changes in assets and liabilities | | |
| Receivables | (441,161) | (670,781) |
| Estimated third-party payor settlements | (785,000) | 877,000 |
| Supplies | (5,701) | (21,301) |
| Prepaid expense | (23,698) | 12,763 |
| Accounts payable | 334,792 | 94,226 |
| Accrued expenses | 77,815 | 34,273 |
| Deferred revenue | <u>12,384</u> | <u>(7,424)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 1,846,816</u> | <u>\$ 2,489,054</u> |

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING
AND FINANCING ACTIVITIES**

Buchanan County Health Center entered into a capital lease obligation of \$527,726 for equipment in 2009.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 39-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 lifelong plan for independent living and dependent care. The Health Center is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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, 2009 AND 2008

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, excluding assets limited as to use or restricted.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident, 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 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, 2009 AND 2008

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. Delinquent property taxes which represent unpaid taxes for the current and prior years are recorded in other receivables. 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, 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. Restricted funds also include assets which are restricted by debt agreements.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and are 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 class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of equipment. Such 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 \$37,641 and \$20,911 for advertising costs for the years ended June 30, 2009 and 2008, respectively.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009.

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 and nonexchange 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, 2009 AND 2008

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.

Reclassification

Certain items from the 2008 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 AND COMMUNITY BENEFITS

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, 2009 and 2008, were \$97,651 and \$95,421, respectively. The estimated costs of the charges foregone, based upon the Health Center's overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$57,000 and \$55,000, respectively.

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

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

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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, 2007.

Medicaid:

Health Center: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Health Center's Medicare cost report, or rates as established by the Medicaid program. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2006.

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 39% and 8%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2009, and 41% and 6%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2008.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient and resident service revenue, contractual adjustments, policy discounts, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|----------------------|
| Total patient and resident service revenue | <u>\$ 22,430,575</u> | <u>\$ 21,152,525</u> |
| Contractual adjustments | | |
| Medicare | (4,697,812) | (4,641,433) |
| Medicaid | (1,002,618) | (1,212,242) |
| Other | <u>(1,777,467)</u> | <u>(1,488,853)</u> |
| Total contractual adjustments | <u>(7,477,897)</u> | <u>(7,342,528)</u> |
| Policy discounts | <u>(45,789)</u> | <u>(45,569)</u> |
| Net patient and resident service revenue | 14,906,889 | 13,764,428 |
| Provision for bad debts | <u>(623,905)</u> | <u>(812,621)</u> |
| Net patient and resident service revenue (net of provision for bad debts) | <u>\$ 14,282,984</u> | <u>\$ 12,951,807</u> |

NOTE 4 – CASH AND DEPOSITS

The Health Center's deposits in banks at June 30, 2009 and 2008, 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.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

At June 30, 2009 and 2008, the Health Center's carrying amounts of cash and deposits are as follows:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Checking, savings, and money market accounts | \$ 2,696,888 | \$ 2,523,823 |
| Certificates of deposit | 2,656,665 | 3,068,797 |
| Accrued interest receivable | <u>23,288</u> | <u>35,459</u> |
| | <u>\$ 5,376,841</u> | <u>\$ 5,628,079</u> |

Included in the following balance sheet captions:

| | | |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,132,747 | \$ 2,038,507 |
| Assets limited as to use or restricted | <u>3,244,094</u> | <u>3,589,572</u> |
| | <u>\$ 5,376,841</u> | <u>\$ 5,628,079</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.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2009 and 2008, was as follows:

| | June 30, 2008 | | | | June 30, 2009 |
|--------------------------|----------------------|---------------------|---------------------|------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u> |
| Cost | | | | | |
| Land | \$ 124,268 | \$ 5,696 | \$ - | \$ - | \$ 129,964 |
| Land improvements | 260,850 | 53,263 | 512 | 200 | 313,801 |
| Buildings | 12,980,451 | 865,606 | - | 7,280 | 13,853,337 |
| Equipment | 4,659,779 | 955,828 | 1,086,420 | - | 4,529,187 |
| Construction in progress | <u>80,757</u> | <u>1,360,884</u> | <u>-</u> | <u>(7,480)</u> | <u>1,434,161</u> |
| | <u>\$ 18,106,105</u> | <u>\$ 3,241,277</u> | <u>\$ 1,086,932</u> | <u>\$ -</u> | <u>\$ 20,260,450</u> |

(continued on next page)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

| | June 30, 2008 | | | | | June 30, 2009 |
|---|---------------------|-------------------|---------------------|------------------|--|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | | <u>Balance</u> |
| Accumulated depreciation | | | | | | |
| Land improvements | \$ 196,455 | \$ 15,380 | \$ 512 | \$ - | | \$ 211,323 |
| Buildings | 5,634,233 | 463,745 | - | - | | 6,097,978 |
| Equipment | <u>3,687,508</u> | <u>362,620</u> | <u>1,085,970</u> | - | | <u>2,964,158</u> |
| | <u>9,518,196</u> | <u>\$ 841,746</u> | <u>\$ 1,086,483</u> | <u>\$ -</u> | | <u>9,273,459</u> |
| Total land, buildings, and equipment, net | <u>\$ 8,587,909</u> | | | | | <u>\$ 10,986,991</u> |
| | | | | | | |
| | June 30, 2007 | | | | | June 30, 2008 |
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | | <u>Balance</u> |
| Cost | | | | | | |
| Land | \$ 39,268 | \$ 85,000 | \$ - | \$ - | | \$ 124,268 |
| Land improvements | 260,850 | - | - | - | | 260,850 |
| Buildings | 12,774,208 | 104,695 | - | 101,548 | | 12,980,451 |
| Equipment | 4,233,458 | 426,321 | - | - | | 4,659,779 |
| Construction in progress | <u>75,344</u> | <u>106,961</u> | - | <u>(101,548)</u> | | <u>80,757</u> |
| | <u>17,383,128</u> | <u>\$ 722,977</u> | <u>\$ -</u> | <u>\$ -</u> | | <u>18,106,105</u> |
| Accumulated depreciation | | | | | | |
| Land improvements | 182,069 | \$ 14,386 | \$ - | \$ - | | 196,455 |
| Buildings | 5,181,089 | 453,144 | - | - | | 5,634,233 |
| Equipment | <u>3,399,758</u> | <u>287,750</u> | - | - | | <u>3,687,508</u> |
| | <u>8,762,916</u> | <u>\$ 755,280</u> | <u>\$ -</u> | <u>\$ -</u> | | <u>9,518,196</u> |
| Total land, buildings, and equipment, net | <u>\$ 8,620,212</u> | | | | | <u>\$ 8,587,909</u> |

Construction in progress at June 30, 2009, consists primarily of a three-phase construction project. The total cost of this project is anticipated to be \$5,100,000. The three-phase project is anticipated to be completed in the spring of 2011. The first phase is expanding and enlarging the emergency room with a completion date spring of 2010. Phase two includes remodeling the current emergency room and one of the surgery suites with an anticipated completion date of late summer 2010. Phase three includes the remodeling of the second surgery suite with an anticipated completion date spring of 2011. The three-phase project will be financed through the Health Center's cash reserves and the issuance of revenue bonds.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 6 – LEASES

The Health Center leases certain equipment under noncancellable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total equipment rental expense for all operating leases for the years ended June 30, 2009 and 2008, was \$280,853 and \$372,558, respectively. The capitalized leased assets consist of:

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------|
| Equipment | \$ 527,726 | \$ - |
| Less accumulated amortization (included as depreciation on the accompanying financial statements) | <u>(52,773)</u> | <u>-</u> |
| | <u>\$ 474,953</u> | <u>\$ -</u> |

Minimum future lease payments for noncancelable capital leases are as follows:

| Year Ending June 30, | Capital Leases |
|--|-------------------|
| 2010 | \$ 114,948 |
| 2011 | 114,948 |
| 2012 | 114,948 |
| 2013 | 114,948 |
| 2014 | <u>67,053</u> |
| Total minimum lease payments | 526,845 |
| Less interest | <u>(39,747)</u> |
| Present value of minimum lease payments - Note 7 | <u>\$ 487,098</u> |

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Health Center's long-term debt for 2009 and 2008 follows:

| | June 30 2008 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | June 30 2009 <u>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 | \$ 115,807 | \$ - | \$ 34,585 | \$ 81,222 | \$ 37,456 |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

| | <u>June 30</u> 2008 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>June 30</u> 2009 <u>Balance</u> | <u>Amounts</u> <u>Due Within</u> <u>One Year</u> |
|---|--|-------------------|-------------------|--|--|
| 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 | \$ 4,487,407 | \$ - | \$ 182,448 | \$ 4,304,959 | \$ 190,116 |
| 8.0% note payable to Bank of Iowa for equipment, due in monthly install- ments of \$918 through June 1, 2011 | 26,506 | - | 9,002 | 17,504 | 9,771 |
| Capitalized lease obligation – Note 6 | - | <u>527,726</u> | <u>40,628</u> | <u>487,098</u> | <u>99,890</u> |
| | <u>\$ 4,629,720</u> | <u>\$ 527,726</u> | <u>\$ 266,663</u> | <u>4,890,783</u> | <u>\$ 337,233</u> |
| Less current maturities | | | | <u>(337,233)</u> | |
| Long-term debt, less current maturities | | | | <u>\$ 4,553,550</u> | |

Long-term debt maturities are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|----------------------------|----------------------------|----------------------------|
| 2010 | \$ 337,233 | \$ 211,977 | \$ 549,210 |
| 2011 | 353,699 | 196,478 | 550,177 |
| 2012 | 314,914 | 180,682 | 495,596 |
| 2013 | 328,173 | 167,423 | 495,596 |
| 2014 | 293,831 | 153,871 | 447,702 |
| 2015-2019 | 1,304,403 | 598,839 | 1,903,242 |
| 2020-2024 | 1,632,846 | 270,396 | 1,903,242 |
| 2025-2028 | <u>325,684</u> | <u>7,724</u> | <u>333,408</u> |
| | <u>\$ 4,890,783</u> | <u>\$ 1,787,390</u> | <u>\$ 6,678,173</u> |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

| | June 30 2007 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | June 30 2008 <u>Balance</u> | Amounts Due Within <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 | \$ 147,742 | \$ - | \$ 31,935 | \$ 115,807 | \$ 34,585 |
| 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 | 4,661,841 | - | 174,434 | 4,487,407 | 181,766 |
| 8.0% note payable to Bank of Iowa for equipment, due in monthly installments of \$918 through June 1, 2011 | <u>37,520</u> | <u>-</u> | <u>11,014</u> | <u>26,506</u> | <u>9,022</u> |
| | <u>\$ 4,847,103</u> | <u>\$ -</u> | <u>\$ 217,383</u> | <u>4,629,720</u> | <u>\$ 225,373</u> |
| Less current maturities | | | | <u>(225,373)</u> | |
| Long-term debt, less current maturities | | | | <u>\$ 4,404,347</u> | |

NOTE 8 – DEPOSITS

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

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 4.10% of their annual covered salary, and the Health Center is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. For the year ended June 30, 2008, plan members were required to contribute 3.90% of their annual covered salary, and the Health Center was required to contribute 6.05% of annual covered payroll. For the year ended June 30, 2007, plan members were required to contribute 3.70% of their annual covered salary, and the Health Center was required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$372,209, \$351,204, and \$329,395, 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, 2009, 2008, and 2007, were \$71,858, \$69,092, and \$72,127, 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.

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 and resident 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.

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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. This coverage has not changed significantly from the previous year. 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, 2009 and 2008, was as follows:

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Medicare | 27% | 33% |
| Medicaid | 1% | 2% |
| Commerical insurance | 34% | 33% |
| Other third-party payors, patients, and residents | <u>38%</u> | <u>32%</u> |
| | <u>100%</u> | <u>100%</u> |

The Health Center's cash balances and certain investments are maintained in various bank deposit accounts. At times these deposits may be in excess of federally insured limits.

NOTE 13 – SUBSEQUENT EVENT

People's Memorial Hospital, d/b/a Buchanan County Health Center, intends to borrow approximately \$5 million in revenue bonds during fiscal year 2010. The proceeds will be used to finance the three-phase construction project that was started during the current fiscal year.

The Health Center has evaluated subsequent events through September 1, 2009, the date which the financial statements were available to be issued.

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, 2009

| | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | Budget | Variance Favorable (Unfavorable) |
|--|----------------------------|------------------------|----------------------|---------------------|--|
| Estimated amount to be raised by taxation | \$ 846,083 | \$ - | \$ 846,083 | \$ 846,093 | \$ (10) |
| Estimated other revenues/receipts | <u>15,211,266</u> | <u>(589,322)</u> | <u>14,621,944</u> | <u>20,102,600</u> | <u>(5,480,656)</u> |
| | 16,057,349 | (589,322) | 15,468,027 | 20,948,693 | (5,480,666) |
| Expenses/disbursements | <u>14,017,599</u> | <u>1,701,666</u> | <u>15,719,265</u> | <u>24,444,400</u> | <u>8,725,135</u> |
| Net | 2,039,750 | (2,290,988) | (251,238) | (3,495,707) | <u>\$ 3,244,469</u> |
| Balance, beginning of year | <u>7,610,390</u> | <u>(1,982,311)</u> | <u>5,628,079</u> | <u>6,307,869</u> | |
| Balance, end of year | <u>\$ 9,650,140</u> | <u>\$ (4,273,299)</u> | <u>\$ 5,376,841</u> | <u>\$ 2,812,162</u> | |

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences 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, 2009.

For the year ended June 30, 2009, 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 36 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
September 1, 2009

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PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| PATIENT AND RESIDENT SERVICE REVENUE | | |
| Routine services - hospital | \$ 1,316,553 | \$ 1,468,111 |
| Routine services - nursing care center | 1,825,218 | 1,993,846 |
| Operating and recovery rooms | 1,584,975 | 1,734,018 |
| Central services and supply | 420,488 | 361,097 |
| Emergency services | 4,190,723 | 3,503,922 |
| Laboratory and blood bank | 3,810,095 | 3,414,467 |
| Cardiac rehab | 142,011 | 98,102 |
| Electrocardiology | 275,486 | 230,052 |
| Radiology | 5,150,914 | 4,621,271 |
| Pharmacy | 1,716,520 | 1,781,586 |
| Anesthesiology | 516,350 | 537,632 |
| Respiratory therapy | 245,007 | 221,146 |
| Physical therapy | 1,076,290 | 1,010,316 |
| Speech and occupational therapy | 252,069 | 265,464 |
| Community care | 5,527 | 6,916 |
| | <u>22,528,226</u> | <u>21,247,946</u> |
| Charity care | (97,651) | (95,421) |
| Total patient and resident service revenue* | <u>\$ 22,430,575</u> | <u>\$ 21,152,525</u> |
| *TOTAL PATIENT AND RESIDENT SERVICE REVENUE - RECLASSIFIED | | |
| Inpatient revenue | \$ 5,201,824 | \$ 5,842,543 |
| Outpatient revenue | 17,326,402 | 15,405,403 |
| Charity care | (97,651) | (95,421) |
| Total patient and resident service revenue | <u>22,430,575</u> | <u>21,152,525</u> |
| CONTRACTUAL ADJUSTMENTS | | |
| Medicare | (4,697,812) | (4,641,433) |
| Medicaid | (1,002,618) | (1,212,242) |
| Other | (1,777,467) | (1,488,853) |
| Total contractual adjustments | <u>(7,477,897)</u> | <u>(7,342,528)</u> |
| POLICY DISCOUNTS | <u>(45,789)</u> | <u>(45,569)</u> |
| NET PATIENT AND RESIDENT SERVICE REVENUE | 14,906,889 | 13,764,428 |
| PROVISION FOR BAD DEBTS | <u>(623,905)</u> | <u>(812,621)</u> |
| NET PATIENT AND RESIDENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS) | <u>\$ 14,282,984</u> | <u>\$ 12,951,807</u> |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|-----------------------|-----------------------|
| OTHER OPERATING REVENUES | | |
| Independent Living Center | \$ 206,141 | \$ 236,419 |
| Wellness Center fees | 196,002 | 187,527 |
| Grants | 195,108 | 139,700 |
| Transcription fees | 42,240 | 42,240 |
| Cafeteria | 32,349 | 26,533 |
| Flu shot clinic | 18,114 | 19,628 |
| Laundry | 8,276 | 3,920 |
| Other nonpatient meals | 3,961 | 3,193 |
| Nonpatient pharmacy sales | 3,910 | 8,025 |
| Medical records transcript fees | 1,964 | 3,155 |
| Immunization clinic | 473 | 7,220 |
| Other | <u>18,667</u> | <u>17,948</u> |
| TOTAL OTHER OPERATING REVENUES | <u>\$ 727,205</u> | <u>\$ 695,508</u> |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|------------------|------------------|
| NURSING ADMINISTRATION | | |
| Salaries and wages | \$ 111,433 | \$ 104,951 |
| Supplies and other expenses | <u>9,934</u> | <u>9,209</u> |
| | <u>121,367</u> | <u>114,160</u> |
| ROUTINE NURSING SERVICES | | |
| Salaries and wages | 2,025,110 | 1,924,116 |
| Supplies and other expenses | <u>138,675</u> | <u>112,297</u> |
| | <u>2,163,785</u> | <u>2,036,413</u> |
| SOCIAL SERVICES | | |
| Salaries and wages | 53,621 | 49,544 |
| Supplies and other expenses | <u>3,334</u> | <u>178</u> |
| | <u>56,955</u> | <u>49,722</u> |
| OPERATING AND RECOVERY ROOMS | | |
| Salaries and wages | 119,921 | 127,931 |
| Supplies and other expenses | <u>288,873</u> | <u>449,331</u> |
| | <u>408,794</u> | <u>577,262</u> |
| CENTRAL SERVICES AND SUPPLY | | |
| Salaries and wages | 67,559 | 61,902 |
| Supplies and other expenses | <u>26,377</u> | <u>5,911</u> |
| | <u>93,936</u> | <u>67,813</u> |
| EMERGENCY SERVICES | | |
| Salaries and wages | 220,474 | 210,541 |
| Supplies and other expenses | <u>737,621</u> | <u>494,280</u> |
| | <u>958,095</u> | <u>704,821</u> |
| LABORATORY AND BLOOD BANK | | |
| Salaries and wages | 379,704 | 344,594 |
| Supplies and other expenses | <u>532,242</u> | <u>481,908</u> |
| | <u>911,946</u> | <u>826,502</u> |

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| ELECTROCARDIOLOGY | | |
| Supplies and other expenses | <u>\$ 22,343</u> | <u>\$ 20,139</u> |
| RADIOLOGY | | |
| Salaries and wages | <u>330,198</u> | 312,590 |
| Supplies and other expenses | <u>542,884</u> | <u>564,376</u> |
| | <u>873,082</u> | <u>876,966</u> |
| PHARMACY | | |
| Salaries and wages | <u>141,660</u> | 124,935 |
| Supplies and other expenses | <u>402,260</u> | <u>354,672</u> |
| | <u>543,920</u> | <u>479,607</u> |
| ANESTHESIOLOGY | | |
| Supplies and other expenses | <u>164,182</u> | <u>170,556</u> |
| RESPIRATORY THERAPY | | |
| Salaries and wages | <u>69,847</u> | 75,421 |
| Supplies and other expenses | <u>35,019</u> | <u>32,402</u> |
| | <u>104,866</u> | <u>107,823</u> |
| PHYSICAL THERAPY | | |
| Salaries and wages | <u>438,544</u> | 393,417 |
| Supplies and other expenses | <u>35,791</u> | <u>55,477</u> |
| | <u>474,335</u> | <u>448,894</u> |
| SPEECH AND OCCUPATIONAL THERAPY | | |
| Supplies and other expenses | <u>152,577</u> | <u>168,290</u> |
| AMBULANCE | | |
| Salaries and wages | - | 22,084 |
| Supplies and other expenses | <u>-</u> | <u>40,590</u> |
| | <u>-</u> | <u>62,674</u> |
| INDEPENDENT LIVING | | |
| Salaries and wages | <u>81,788</u> | 80,069 |
| Supplies and other expenses | <u>44,183</u> | <u>29,982</u> |
| | <u>125,971</u> | <u>110,051</u> |

(continued)

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| COMMUNITY CARE | | |
| Salaries and wages | \$ 227,179 | \$ 228,523 |
| Supplies and other expenses | <u>17,748</u> | <u>16,702</u> |
| | <u>244,927</u> | <u>245,225</u> |
| MEDICAL RECORDS | | |
| Salaries and wages | 205,423 | 198,183 |
| Supplies and other expenses | <u>41,653</u> | <u>42,109</u> |
| | <u>247,076</u> | <u>240,292</u> |
| DIETARY | | |
| Salaries and wages | 325,328 | 285,092 |
| Supplies and other expenses | <u>244,322</u> | <u>231,344</u> |
| | <u>569,650</u> | <u>516,436</u> |
| PLANT OPERATION AND MAINTENANCE | | |
| Salaries and wages | 204,825 | 187,059 |
| Supplies and other expenses | <u>580,368</u> | <u>525,320</u> |
| | <u>785,193</u> | <u>712,379</u> |
| HOUSEKEEPING | | |
| Salaries and wages | 227,405 | 224,627 |
| Supplies and other expenses | <u>33,670</u> | <u>33,434</u> |
| | <u>261,075</u> | <u>258,061</u> |
| LAUNDRY AND LINEN | | |
| Salaries and wages | 19,305 | 18,020 |
| Supplies and other expenses | <u>105,470</u> | <u>88,434</u> |
| | <u>124,775</u> | <u>106,454</u> |
| ADMINISTRATIVE SERVICES | | |
| Salaries and wages | 915,389 | 852,899 |
| Supplies and other expenses | <u>567,436</u> | <u>444,316</u> |
| | <u>1,482,825</u> | <u>1,297,215</u> |

(continued)

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|----------------------|----------------------|
| UNASSIGNED EXPENSES | | |
| Depreciation and amortization | \$ 845,395 | \$ 755,281 |
| Insurance | 178,379 | 185,242 |
| Employee benefits | <u>1,886,655</u> | <u>1,906,641</u> |
| | <u>2,910,429</u> | <u>2,847,164</u> |
| | | |
| TOTAL OPERATING EXPENSES | <u>\$ 13,802,104</u> | <u>\$ 13,044,919</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, 2009 AND 2008**

ANALYSIS OF AGING

| Days Since Discharge | 2009 | | 2008 | |
|---------------------------------------|---------------------|------------------|---------------------|------------------|
| | Amount | Percent to Total | Amount | Percent to Total |
| 0 – 30 Days | \$ 1,735,852 | 59.92% | \$ 1,730,042 | 58.55% |
| 1 – 2 Months | 307,903 | 10.63 | 450,652 | 15.25 |
| 2 – 3 Months | 245,654 | 8.48 | 210,743 | 7.13 |
| 3 – 6 Months | 136,935 | 4.73 | 143,140 | 4.84 |
| 6 – 12 Months | 277,889 | 9.59 | 286,733 | 9.70 |
| Over 12 Months | 192,805 | 6.65 | 133,738 | 4.53 |
| | <u>2,897,038</u> | <u>100.00%</u> | 2,955,048 | <u>100.00%</u> |
| Less: Allowance for doubtful accounts | 725,000 | | 600,000 | |
| Allowance for contractual adjustments | <u>900,000</u> | | <u>900,000</u> | |
| Net | <u>\$ 1,272,038</u> | | <u>\$ 1,455,048</u> | |

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2009 AND 2008**

| | 2009 | 2008 |
|------------------------------------|-------------------|-------------------|
| BALANCE, BEGINNING OF YEAR | \$ 600,000 | \$ 397,000 |
| Add: Provision for bad debts | 623,905 | 812,621 |
| Recoveries of accounts written off | 57,588 | 37,092 |
| Less: Accounts written off | <u>(556,493)</u> | <u>(646,713)</u> |
| BALANCE, END OF YEAR | <u>\$ 725,000</u> | <u>\$ 600,000</u> |

COLLECTION STATISTICS

| | 2009 | 2008 |
|---|--------------|--------------|
| Net accounts receivable – patients and residents | \$ 1,272,038 | \$ 1,455,048 |
| Number of days charges outstanding (1) | 32 | 38 |
| Uncollectible accounts (2) | \$ 745,992 | \$ 914,181 |
| Percentage of uncollectible accounts to total charges | 3.3% | 4.3% |

(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, 2009 AND 2008**

| | <u>2009</u> | <u>2008</u> |
|---------------------|-----------------------|-----------------------|
| SUPPLIES | | |
| Pharmacy | \$ 98,325 | \$ 95,930 |
| Central stores | 42,104 | 38,165 |
| Dietary | <u>15,183</u> | <u>15,816</u> |
| Total | <u>\$ 155,612</u> | <u>\$ 149,911</u> |
| PREPAID EXPENSE | | |
| Insurance | <u>\$ 33,488</u> | <u>\$ 9,790</u> |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2009

| <u>Company and Policy Number</u> | <u>Description</u> | <u>Amount of Coverage</u> | <u>Annual Premium</u> | <u>Expiration Date</u> |
|---|--|--|---------------------------|----------------------------|
| General Casualty #CFE07211 | Building and contents Blanket earnings and expense Earthquake Boiler | \$ 35,371,000 \$ 12,337,600 \$ 5,000,000 \$ 4,000,000 | \$ 37,867 | 06/15/10 |
| EMC Insurance Co. #T222750 | Employee dishonesty | \$ 500,000 | \$ 1,066 | 06/15/10 |
| General Casualty #92967 | Auto liability Medical payments | \$ 1,000,000 \$ 5,000 | \$ 2,598 | 06/15/10 |
| Physicians Insurance Co. #134277 | Professional liability | \$ 1,000,000/ 3,000,000 | \$ 35,938 | 08/14/09 |
| #134276 | General liability | \$ 1,000,000/ 3,000,000 | \$ 8,932 | 08/14/09 |
| #142037 | Umbrella excess liability | \$ 4,000,000/ 4,000,000 | \$ 26,922 | 08/14/09 |
| Farm Bureau Financial Services #7211290 | Workers' compensation | \$ 500,000 | \$ 88,209 | 04/01/10 |
| Federal Insurance Co. #68029414 | Directors' and officers' liability | \$ 1,000,000 | \$ 10,080 | 06/15/10 |

PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|---------------|-------------|
| PATIENT DAYS | | |
| Hospital | | |
| Acute | 1,117 | 1,413 |
| Swing-bed | 512 | 387 |
| Nursing Care Center | 13,887 | 16,210 |
| NUMBER OF BEDS | | |
| Hospital | 25 | 25 |
| Nursing Care Center | 39 | 59 |
| PERCENTAGE OF OCCUPANCY | | |
| Hospital | 18% | 20% |
| Nursing Care Center | 98% | 75% |
| DISCHARGES | | |
| Hospital | | |
| Acute | 368 | 477 |
| Swing-bed | 58 | 63 |
| Nursing Care Center | 12 | 32 |
| AVERAGE LENGTH OF STAY | | |
| Hospital | | |
| Acute | 3.0 | 3.0 |
| Swing-bed | 8.8 | 6.1 |
| Nursing Care Center | 1,157 | 507 |



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, 2009 and 2008, 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 September 1, 2009. 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 audit, 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 opinion 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 and Responses to be significant deficiencies in internal control over financial reporting.

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 and Responses.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2009, 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.

People's Memorial Hospital's, d/b/a Buchanan County Health Center, responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses, and accordingly, we express no opinion on them.

We also noted a certain additional matter that we reported to management in a separate letter dated September 1, 2009.

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.



Dubuque, Iowa
September 1, 2009

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

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

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. 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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the 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 agrees with the finding and has reviewed the operating procedures of People's Memorial Hospital, d/b/a Buchanan County Health Center. Due to the limited number of office employees, management will continue to monitor the Health Center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements: (continued)

I-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted account principles (GAAP).

Condition – People's Memorial Hospital, d/b/a Buchanan County Health Center, does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the financial reporting is prepared by a party outside of the Health Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Health Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Health Center's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 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-09 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-09 Business Transactions – A Health Center Board member is president 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-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-09 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-09 Publication of Bills Allowed and Salaries – The Health Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.
- II-H-09 Tax Levy for Maintenance and Operation of the Hospital – Buchanan County Health Center is organized under Chapter 347A of the Code of Iowa as a county hospital payable from revenue. Section 347A.3 of the Code of Iowa defines whereby a county hospital under Chapter 347A may receive property tax revenues as follows: “If in any year, after payment of the accruing interest on and principal due of revenue bonds issued under chapter 331, division IV, part 4, and payable from the operation of the county hospital, there is a balance of such revenues insufficient to pay the expenses of operation, maintenance, and funded depreciation of the hospital , the board of the hospital trustees shall certify that fact as soon as ascertained to the board of supervisors of the county , and the board of supervisors shall make the amount of the deficiency for paying the expenses of operation, maintenance, and funded depreciation of the hospital available from other county funds or shall levy a tax not to exceed one dollar and eight cents per thousand dollars of assessed value in any one year on all the taxable property in the county in an amount sufficient for that purpose...”
- Recommendation – It is recommended that the Health Center Board of Trustees and management review its process to request property tax revenues from the county board of supervisors.

**PEOPLE'S MEMORIAL HOSPITAL
d/b/a BUCHANAN COUNTY HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting: (continued)

Response – While Section 347A.3 sets forth the general requirements for a tax levy by a 347A county hospital, the levy procedures used in practice by county hospitals follows the budget process established by the Iowa Department of Management pursuant to Chapter 24 of the Code of Iowa. In practice, the tax levy amount requested is set by the hospital's board of trustees during the annual budgeting process. The Health Center's budgeting process follows the guidelines set forth in the Iowa Code Chapter 24. This process, although differing from the process described in Iowa Code Section 347A.3, appears to be in general usage by 347A county hospitals in Iowa and, again, is in compliance with the process outlined by Iowa Code Chapter 24 which has been interpreted to include county hospitals under Chapter 347A.

Conclusion – Response accepted



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, 2009, and have issued our report thereon dated September 1, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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, 2009. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient and Resident Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. 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 that 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.

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Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments, some of which are considered material, were made during the audit:

| | |
|---|---------------------|
| Revenues in excess of expenses prior to audit adjustments | \$ 1,883,701 |
| To adjust estimated third-party payor settlements | 100,000 |
| To record additional fixed asset additions | 49,224 |
| To adjust prepaid expenses | 17,508 |
| To record additional accounts payable | (12,474) |
| Other adjustments | <u>1,791</u> |
| Revenues in excess of expenses as reported | <u>\$ 2,039,750</u> |

The net effect of the adjustments was to increase net assets by \$156,049.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 1, 2009.

Management 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.

Other Audit Findings or Issues

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.

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
September 1, 2009

xc: Mr. Robert J. Richard, CEO