

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2004 AND 2003**

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>BOARD OF TRUSTEES</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEETS</b>	<b>9</b>
<b>BALANCE SHEETS – FOUNDATION</b>	<b>11</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>	<b>12</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -         FOUNDATION</b>	<b>13</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>14</b>
<b>STATEMENTS OF CASH FLOWS - FOUNDATION</b>	<b>16</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>17</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND         CHANGES IN NET ASSETS</b>	<b>29</b>
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF NET PATIENT SERVICE REVENUES</b>	<b>30</b>
<b>SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER         REVENUES</b>	<b>32</b>
<b>SCHEDULES OF OPERATING EXPENSES</b>	<b>33</b>
<b>SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM         PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>	<b>35</b>
<b>SCHEDULES OF INVENTORIES AND PREPAID EXPENSES</b>	<b>36</b>
<b>SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)</b>	<b>37</b>
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON         COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL         STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL         AUDITING STANDARDS</i></b>	<b>38</b>
<b>SCHEDULE OF FINDINGS</b>	<b>40</b>

PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
BOARD OF TRUSTEES  
YEAR ENDED 2004

Name	Title	Term Expires
James Hobart	Chair	December 31, 2004
Charles S. Wirtz	Treasurer	December 31, 2006
Gary Hughes	Secretary	December 31, 2008
Mick Conway	Member	December 31, 2004
Tom Magee	Member	December 31, 2006
Ken Kassel	Member	December 31, 2006
Shirley Kruse	Member	December 31, 2008

\* \* \* \* \*

Darrell Vondrak	Chief Executive Officer
Renay Hauswirth	Director of Finance

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Palo Alto County Health System  
Emmetsburg, Iowa

We have audited the accompanying financial statements of Palo Alto County Health System and its discretely presented component unit for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

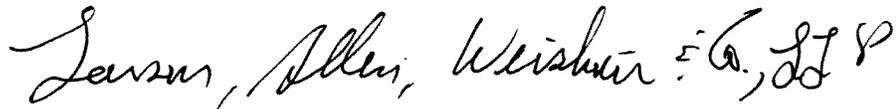
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palo Alto County Health System and its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Palo Alto County Health System adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004 on our consideration of Palo Alto County Health System'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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 29 are not a required part of the basic financial statements, but are supplementary information required by U.S generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on Palo Alto County Health System's basic financial statements. The other supplementary information from pages 30 to 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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. The statistical data contained in the schedule of comparative statistics on page 37 has been summarized from the Health System's records and was not subjected to such audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 1, 2004

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

This section of the Palo Alto County Health System's annual audited financial report represents management's discussion and analysis of the Health System's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on the Health System's financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 30, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

**Financial Highlights**

- The Health System's total assets decreased by \$98,540 or 0.5% in 2004 and increased by \$761,842 or 3.7% in 2003.
- The Health System's net assets decreased in 2004 by \$165,604 or 1.3% and increased in 2003 by \$800,920, or 6.8%.
- The Health System reported an operating loss of \$774,417 in 2004 and operating income of \$251,890 in 2003. This represents a decrease in 2004 of \$1,026,307 and an increase in 2003 of \$57,691.

**The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

These financial statements report information about the Health System using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Health System's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Health System creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health System's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the Health System's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Required supplementary information to the above statements is provided in:

- Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

Other supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Age Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Schedule of Comparative Statistics

There was one significant change in the Health System's accounting policies for the year ended June 30, 2004. The amount to qualify an item as a capital expenditure increased from \$1,000 to \$5,000 dollars.

**Financial Analysis of the Health System**

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Health System and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Health System's financial health is improving. Other non-financial factors can also have an effect on the Health System's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Palo Alto County and the surrounding areas.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current Assets	\$ 4,279,595	\$ 3,568,303	\$ 3,547,316
Noncurrent Cash and Investments	5,509,791	5,813,171	4,759,411
Capital Assets, Net	10,954,223	11,441,188	11,749,085
Succeeding Year Property Tax Receivable	452,354	496,472	491,290
Other Assets	173,711	149,080	167,271
<b>Total Assets</b>	<u>\$ 21,369,674</u>	<u>\$ 21,468,214</u>	<u>\$ 20,714,373</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 2,027,671	\$ 1,721,595	\$ 1,566,984
Long-Term Debt (Less Current Maturities)	6,404,346	6,604,719	6,805,226
Deferred Revenue from Succeeding Year Property Tax Receivable	452,354	496,472	491,290
Other Liabilities	19,457	13,978	12,343
<b>Total Liabilities</b>	<u>8,903,828</u>	<u>8,836,764</u>	<u>8,875,843</u>
<b>Total Net Assets</b>	<u>12,465,846</u>	<u>12,631,450</u>	<u>11,838,530</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 21,369,674</u>	<u>\$ 21,468,214</u>	<u>\$ 20,714,373</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

Asset categories changing significantly during 2004 and 2003 included Cash and Cash Equivalents, Noncurrent Cash and Investments, and Capital Assets Net. Current Assets increased by \$711,292 or 19.9% in 2004 and increased by \$20,988 or 0.6% in 2003. Non-current Cash and investments decreased in 2004 by \$303,380 or 5.2% and in 2003 increased by \$1,061,760 or 22.4%. Capital Assets decreased in 2004 by \$486,965 or 4.3% and decreased in 2003 by \$307,897 or 2.6%.

The current ratio (current assets divided by current liabilities) for 2004 was 2.1 and 2003 was 2.1. It is a measure of liquidity, providing an indication of the Health System's ability to pay current liabilities; a high ratio number is preferred.

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 12,890,835	\$ 13,359,010	\$ 12,280,222
Operating Expenses	13,665,252	13,107,120	12,086,023
Operating Income (Loss)	(774,417)	251,890	194,199
Due to Affiliated Organization	-	(125,945)	-
Adjusted Operating Income (Loss)	(774,417)	125,945	194,199
Non-Operating Revenues (Expenses)	608,813	674,975	689,433
Excess of Revenues over Expenses	(165,604)	800,920	883,632
Capital Grants and Contributions	-	-	4,356
Increase (Decrease) in Net Assets	(165,604)	800,920	887,988
Net Assets, Beginning of Year	12,631,450	11,830,530	10,950,542
Net Assets, End of Year	<u>\$ 12,465,846</u>	<u>\$ 12,631,450</u>	<u>\$ 11,838,530</u>

Net patient service revenue made up 93.2% in 2004 and 94.4 % in 2003 of the Health System's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 17,769,288	\$ 15,959,012	\$ 14,820,203
Contractual Adjustments and Provisions for Bad Debt	(5,751,648)	(3,355,374)	(3,237,603)
Net Patient Service Revenue	<u>\$ 12,017,640</u>	<u>\$ 12,603,638</u>	<u>\$ 11,582,600</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>32.37%</u>	<u>21.02%</u>	<u>21.85%</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

Total operating expenses increased \$558,132 or 4.3% in 2004 and increased \$1,021,097 or 8.5% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 33-34 of the audited financial statements for this information.

Operating Income (total operating revenue less total operating expenses) was a loss of \$774,417 or 6.0% of total operating revenue in 2004 compared to \$251,890 or 1.9% in 2003.

Other Operating Revenue increased by \$80,019 or 18.4% in 2004 and increased by \$70,091 or 19.2% in 2003. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Home Health Care Revenue	\$ 333,227	\$ 313,149	\$ 253,179
Lifeline	34,912	31,259	24,623
Cafeteria	61,367	53,891	58,135
Rural Transition Grant	71,285	27,773	3,488
Miscellaneous	15,023	9,723	26,279
Total Other Revenues	<u>\$ 515,814</u>	<u>\$ 435,795</u>	<u>\$ 365,704</u>

**Health System Statistical Data**

Table 5 shows the Health System's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	1,810	1,617	1,922
Swing Bed	674	515	586
Newborn	194	187	127
Long Term Care	7,414	6,860	7,708
Total	<u>10,092</u>	<u>9,179</u>	<u>10,343</u>
<b>Admissions</b>			
Acute	628	605	683
Swing Bed	136	115	138
Long Term Care	25	24	13
Total	<u>789</u>	<u>744</u>	<u>834</u>
<b>Discharges</b>			
Acute	627	605	675
Swing Bed	135	115	137
Long Term Care	23	27	13
Total	<u>785</u>	<u>747</u>	<u>825</u>
<b>Average Length of Stay, Acute</b>	<u>2.9</u>	<u>2.7</u>	<u>2.8</u>
<b>Beds</b>			
Acute and Swing	32	32	32
Long Term Care	22	22	22
<b>Occupancy Percentage</b>			
Acute and Swing, Based on 32 Beds	21.3%	18.2%	21.5%
Long Term Care, Based on 22 Beds	92.1%	85.2%	95.7%

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

**The Health System's Cash Flows**

The Health System's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**Capital Assets**

At June 30, 2004 the Health System had \$10,954,223 invested in capital assets net of accumulated depreciation. In 2004, the Health System expended \$638,192 to purchase new equipment. In 2003 the Health System purchased new equipment costing \$454,909.

**Long Term Debt**

Table 6 shows a summary of the Health System's long-term debt outstanding.

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Hospital Revenue Bonds, Series 2003	\$ -	\$ 6,670,000	\$ 6,785,000
Hospital Revenue Bonds, Series 1998	6,735,000	-	-
Capital Lease Obligations	54,809	129,559	204,041
	<u>6,789,809</u>	<u>6,799,559</u>	<u>6,989,041</u>
Less:			
Bond Discount	(22,480)	-	-
Deferred Loss on Bond Refinancing	(143,174)	-	-
	<u>\$ 6,624,155</u>	<u>\$ 6,799,559</u>	<u>\$ 6,989,041</u>

The most significant number in Table 6 is the Hospital Revenue Bonds, Series 2003. The County Board of Supervisors adopted a resolution authorizing the issuance of \$7,000,000 of Hospital Revenue Notes in August 1998 to finance the renovation of the Health System. The Series 1998 bonds were refunded by the 2003 Hospital Revenue Bonds in order to obtain lower interest rates. The 2003 bonds are payable through August 1, 2029, with interest coupons payable at February 1 and August 1 at annual rates varying from 1.70% to 5.40%. The Bonds due after August 1, 2010 may be called for redemption in whole or part at principal plus accrued interest upon 30 days notice. Special Term Notes maturing on August 1, 2029 are subject to special obligatory redemption at principal plus accrued interest from amounts on deposit in the Sinking and Debt Service Reserve Funds on interest payment dates on or after August 1, 2004.

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**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

**Economic Factors**

The Health System continued to improve its financial position during the current year. However, the current condition of the economy continues to be a concern for Health System officials. Some of the realities that may potentially become challenges for the Health System to are as follows:

- Expenses will continue to increase.
- Facilities at the Health System require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.

The Health System anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Health System's ability to react to unknown issues. Effective July 1, 2004, the Health System's designation will change to Critical Access status with Medicare.

**Contacting the Health System**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health System's finances and to demonstrate the Health System's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Ed Maahs, Interim Administrator at Palo Alto County Health Systems, 3201 First Street, Emmetsburg, IA, 50536.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,840,677	\$ 1,315,942
Patient Receivables, Less Allowance for Uncollectible		
Accounts (2004, \$275,656, 2003, \$261,654)	2,039,439	1,785,300
Other Receivables	48,970	77,824
Third Party Payor Settlement Receivable	-	87,891
Inventories	268,941	230,632
Prepaid Expenses	81,568	70,714
Total Current Assets	4,279,595	3,568,303
<b>OTHER ASSETS</b>	173,711	149,080
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Improvements	4,728,756	5,131,186
Restricted by Bond Agreement	736,540	638,311
Restricted by Contributors and Grantors	44,495	43,674
Total Noncurrent Cash and Investments	5,509,791	5,813,171
<b>SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	452,354	496,472
<b>CAPITAL ASSETS, NET</b>	10,954,223	11,441,188
Total Assets	\$ 21,369,674	\$ 21,468,214

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 219,809	\$ 194,840
Accounts Payable	545,738	790,652
Accrued Expenses	770,324	736,103
Third-Party Payor Settlement Payable	491,800	-
Total Current Liabilities	<u>2,027,671</u>	<u>1,721,595</u>
<b>OTHER LIABILITIES</b>		
Security Deposits	19,457	13,978
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR</b>		
PROPERTY TAX RECEIVABLE	452,354	496,472
<b>LONG-TERM DEBT</b>		
	<u>6,404,346</u>	<u>6,604,719</u>
Total Liabilities	8,903,828	8,836,764
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	4,330,068	4,641,629
Restricted		
By Bond Agreement	736,540	638,311
By Contributors and Grantors	44,495	43,674
Unrestricted	7,354,743	7,307,836
Total Net Assets	<u>12,465,846</u>	<u>12,631,450</u>
Total Liabilities and Net Assets	<u>\$ 21,369,674</u>	<u>\$ 21,468,214</u>

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 33,537	\$ 8,622
Accrued Interest	9,625	11,240
	43,162	19,862
<b>NONCURRENT CASH AND INVESTMENTS</b>	1,370,117	1,347,805
<b>CAPITAL ASSETS, NET</b>	32,882	9,897
	\$ 1,446,161	\$ 1,377,564
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Employees	\$ 3,700	\$ 3,710
<b>NET ASSETS</b>		
Unrestricted	1,442,461	1,373,854
Total Liabilities and Net Assets	\$ 1,446,161	\$ 1,377,564

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (net of provision for bad debts of \$299,441 in 2004 and \$238,869 in 2003)	\$ 12,017,640	\$ 12,603,638
Apartment Revenue	357,381	319,577
Other Revenue	515,814	435,795
Total Revenues	12,890,835	13,359,010
<b>EXPENSES</b>		
Salaries and Wages	5,139,771	4,852,231
Employee Benefits	1,541,209	1,392,101
Professional Fees	2,407,699	2,222,632
Utilities	213,439	208,079
Management, Legal, and Accounting Fees	179,656	122,490
Insurance	128,528	133,937
Supplies and Miscellaneous	2,795,763	2,920,477
Depreciation and Amortization	916,985	849,716
Interest	342,202	405,457
Total Expenses	13,665,252	13,107,120
<b>OPERATING INCOME (LOSS)</b>	(774,417)	251,890
<b>DUE TO AFFILIATED ORGANIZATION</b>	-	(125,945)
<b>ADJUSTED OPERATING INCOME (LOSS)</b>	(774,417)	125,945
<b>NON-OPERATING GAINS (LOSSES)</b>		
Investment Income	35,966	154,058
Tax Apportionments	511,117	510,991
Unrestricted Contributions	57,622	21,970
Loss on Sale of Property and Equipment	4,108	(12,044)
Non-operating Gains, Net	608,813	674,975
<b>EXCESS (DEFICIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	(165,604)	800,920
Increase (Decrease) in Net Assets	(165,604)	800,920
Net Assets Beginning of Year	12,631,450	11,830,530
Net Assets End of Year	\$ 12,465,846	\$ 12,631,450

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>Revenues</b>		
Contributions	\$ 2,665	\$ 1,090
Investment Income	74,080	75,363
Rental Income	2,600	-
Total Revenues	79,345	76,453
<b>EXPENSES</b>		
Salaries	-	5,242
Other Expenses	203	-
Depreciation	535	535
Contributions to Health System	10,000	-
Total Expenses	10,738	5,777
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	68,607	70,676
Net Assets Beginning of Year	1,373,854	1,303,178
Net Assets End of Year	\$ 1,442,461	\$ 1,373,854

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Party Payors	\$ 12,700,573	\$ 12,746,908
Cash Paid to Employees	(6,608,475)	(6,099,147)
Cash Paid to Suppliers	(6,019,162)	(5,611,150)
Other Receipts and Payments, Net	544,668	285,737
Net Cash Provided by Operating Activities	617,604	1,322,348
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Restricted and Unrestricted Contributions	57,622	21,970
Tax Apportionments	511,117	510,991
Net Cash Provided by Non-Capital Financing Activities	568,739	532,961
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	(6,744,750)	(189,482)
Proceeds from the Issuance of Long-Term Debt	6,735,000	-
Discount on Bond Issue	(23,295)	-
Proceeds from Sale of Property and Equipment	431	1,263
Cash Paid for Bond Issue Costs	(58,781)	-
Acquisition of Capital Assets	(500,199)	(555,125)
Interest Payments on Long-term Debt	(367,465)	(407,733)
Net Cash Used by Capital and Related Financing Activities	(959,059)	(1,151,077)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Noncurrent Cash and Investments	303,380	(1,060,126)
Interest Income	35,966	154,058
(Increase) Decrease in Other Assets	(41,895)	18,191
Net Cash Provided (Used) by Investing Activities	297,451	(887,877)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	524,735	(183,645)
Cash and Cash Equivalents - Beginning	1,315,942	1,499,587
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 1,840,677	\$ 1,315,942

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Adjusted Operating Income (Loss)	\$ (774,417)	\$ 125,945
Adjustments to Reconcile Adjusted Operating Income (Loss) to Net Cash Provided by Operating Activities :		
Depreciation & Amortization	916,985	849,716
Interest Expense Considered Capital and Related Financing Activity	367,465	407,733
Amortization of Bond Issue Costs	13,021	-
Decrease (Increase) In:		
Patient Receivables	(254,139)	(72,357)
Accounts Receivable - Other	28,854	(24,113)
Third-Party Payor Settlement Receivable	87,891	(87,891)
Inventories	(38,309)	(9,734)
Prepaid Expenses	(10,854)	(10,537)
Increase (Decrease) In:		
Accounts Payable	(244,914)	16,736
Accrued Expenses	34,221	142,909
Third-Party Payor Settlement Payable	491,800	(16,059)
Net Cash Provided by Operating Activities	\$ 617,604	\$ 1,322,348

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase In Unrestricted Net Assets	\$ 68,607	\$ 70,676
Adjustments to Reconcile Excess of Operating Revenues over Operating Expenses to Net Cash Provided by Operating Activities:		
Depreciation	535	535
Amortization of Premiums on Investments	5,442	3,074
(Increase) Decrease in:		
Accrued Interest Receivable	1,615	111
Increase (Decrease) in:		
Due to Employees	(10)	3,710
Net Cash Provided by Operating Activities	76,189	78,106
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for Capital Expenditures	(23,520)	-
Net Cash Used by Financing Activities	(23,520)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Noncurrent Cash and Investments	(27,754)	(97,628)
Net Cash Used by Investing Activities	(27,754)	(97,628)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	24,915	(19,522)
Cash and Cash Equivalents - Beginning	8,622	28,144
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 33,537	\$ 8,622

See accompanying Notes to Financial Statements.

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**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Palo Alto County Hospital is a county hospital in the City of Emmetsburg, organized under Chapter 347, Code of Iowa. The Health System provides healthcare services under the name of Palo Alto County Health System (the Health System) in accordance with a Master Affiliation Agreement discussed further in Note 10. Services are provided primarily to residents of Palo Alto County and surrounding counties in Iowa.

**A. Reporting Entity**

For financial reporting purposes, the Health System has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Health System has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health System are such that exclusion would cause the Health System's financial statements to be misleading or incomplete. The Government 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 organization 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 organization.

Palo Alto County Health Care Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Health System and has a year end of December 31. The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Health System in support of its operations and programs. The Health System does not appoint a voting majority of the Foundation's board of directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Health System.

**B. Use of Estimates**

The preparation of financial statements in conformity with U.S. 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.

**C. Basis of Accounting**

The Health System has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Health System applies all applicable GASB pronouncements 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 Procedures.

**D. Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, the Health System considers savings accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Patient Receivables* – The Health System provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payments for services are due upon the patient receiving the bill. Accounts receivable are sent to pre-collect when payment has not been made after the original bill and two additional billing cycles. If no payments have been received after 30 days in the pre-collection financial class, accounts are sent to collections. In addition, an allowance is estimated for other accounts based on historical experience in the Health System. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$275,656 and \$261,654, respectively.

*Inventory* - Inventory is valued at cost using the first-in, first-out method.

*Capital Assets, Net* - Property and equipment is stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Health System's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenditures of \$5,000 or greater are capitalized and amortized over the useful life of the asset.

*Investments* – Investments in debt and equity securities are stated at fair value. Investments consist primarily of U.S. Treasury Securities, certificates of deposit, savings and money market accounts and investments in the Iowa Public Agency Investment Trust (IPAIT).

PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities and Net Assets (Continued)**

*Other Assets* - Other assets consist of unamortized bond issuance costs. Bond issuance costs of \$180,011 related to the Series 2003 bonds are being amortized over the life of the bonds using the straight-line method. At June 30, 2004 and 2003, accumulated amortization was \$6,300 and \$0, respectively. In addition, the remaining unamortized issued costs from the Series 1998 Hospital Revenue Bonds refunded during fiscal 2004 are recorded as a deferred loss from refinancing and are presented as a reduction of long-term debt, and are getting amortized over the on the straight line method over the Series 2003 bond issue. The gross amount of the deferred loss was \$148,340. At June 30, 2004 and 2003, accumulated amortization was \$5,166 and \$0, respectively.

*Succeeding Year Property Tax Receivable* – Property tax receivable is recognized on the levy or lien date, which is the date that 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.

*Noncurrent Cash and Investments* – Noncurrent cash and investments include assets which have been internally designated by the Health System's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Health System for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

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

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Contributions**

From time to time the Health System receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. 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 operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**F. Restricted Resources**

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

**G. Operating Revenues and Expenses**

The Health System'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 System's principal activity. Nonexchange revenues, including interest income, taxes, capital grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating gains (losses). Operating expenses are all expenses incurred to provide health care services, including interest expense.

**H. Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**I. Charity Care**

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2004 and 2003 was \$40,002 and \$40,370, respectively.

**J. County Tax Revenue**

Taxes are included in non-operating gains when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 2 DESIGNATED NET ASSETS**

Of the \$7,354,743 and \$7,307,836 of unrestricted net assets at June 30, 2004 and 2003, respectively, the Board of Trustees has designated \$4,728,756 and \$5,131,186, respectively, for capital expenditures. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

**NOTE 3 NET PATIENT SERVICE REVENUE**

The Health System 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**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. The Health System was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits based thereof by the Medicare fiscal intermediary. The Health System'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 Hospital. Outpatient services are reimbursed under the Ambulatory Payment Classification (APC) method, which reimburses the Hospital a predetermined amount for most outpatient services. The APC payments are not based on the provider's annual cost report and during the transition period there is a hold harmless provision which prevents the Hospital from experiencing large reductions in payment through January 1, 2005. The Health System's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2003.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group. The Health System's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2003.

**Other**

The Health System has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)**

A summary of patient service revenues and contractual adjustments is as follows:

	June 30,	
	2004	2003
Total Patient Service Revenue	\$ 17,769,288	\$ 15,959,012
Contractual Adjustments:		
Medicare	3,650,149	2,455,782
Medicaid	164,405	91,734
Provision for Bad Debt	299,441	238,869
Other	1,637,653	568,989
Total Contractual Adjustments and Bad Debts	<u>5,751,648</u>	<u>3,355,374</u>
Net Patient Service Revenue	<u>\$ 12,017,640</u>	<u>\$ 12,603,638</u>

**NOTE 4 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Health System at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivable from Patients and Their Insurance Carriers	\$ 1,513,528	\$ 1,353,974
Receivable from Medicare	639,364	571,338
Receivable from Medicaid	162,203	121,642
Total Patient Receivables	<u>2,315,095</u>	<u>2,046,954</u>
Less Allowance for Doubtful Accounts	<u>(275,656)</u>	<u>(261,654)</u>
Patient Receivables, Net	<u>\$ 2,039,439</u>	<u>\$ 1,785,300</u>

**NOTE 5 DEPOSITS AND INVESTMENTS**

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

The Health System 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 Health System and the Treasurer of the State of Iowa; 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.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)**

The Health System's cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Health System at year end. The Health System's cash equivalents and investments are all category 1, which means that the cash equivalents and investments are insured or registered or the securities are held by the Health System or its agent in the Health System's name.

At June 30, 2004 and 2003, the Health System had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 3,455,114</u>	<u>\$ 4,782,374</u>
Carrying Amount	<u>\$ 3,445,037</u>	<u>\$ 4,665,539</u>

The Health System's investments generally reported at fair value, as discussed in Note 1. At June 30, 2004 and 2003, the Health System's investments consisted of the following, all of which were held in the Health System's name by a custodial bank in the Health System's name:

	<u>2004</u>	<u>2003</u>
U.S. Treasury Obligations	<u>\$ 3,905,431</u>	<u>\$ 2,463,574</u>

The carrying amounts of deposits and investments shown above are included in the Health System's balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Carrying Amounts		
Deposits	\$ 3,445,037	\$ 4,665,539
Investments	<u>3,905,431</u>	<u>2,463,574</u>
	<u>\$ 7,350,468</u>	<u>\$ 7,129,113</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 1,840,677	\$ 1,315,942
Noncurrent Cash and Investments		
Internally Designated for Capital Improvements	4,728,756	5,131,186
Restricted by Bond Agreement	736,540	638,311
Restricted by Contributors or Grantors	<u>44,495</u>	<u>43,674</u>
	<u>\$ 7,350,468</u>	<u>\$ 7,129,113</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 CAPITAL ASSETS**

A summary of capital assets for the years ended June 30, 2004 and 2003 is as follows:

<b>Capital Assets</b>	July 1, 2003	Additions	(Retirements)	June 30, 2004
Land and Land Improvements	\$ 339,200	\$ -	\$ -	\$ 339,200
Building	10,661,372	2,227	(68,307)	10,595,292
Fixed Equipment	2,120,227	27,146	(163,814)	1,983,559
Major Movable Equipment	3,702,791	638,192	(201,273)	4,139,710
Construction in Progress	167,366	-	(167,366)	-
<b>Totals</b>	<b>16,990,956</b>	<b>\$ 667,565</b>	<b>\$ (600,760)</b>	<b>17,057,761</b>
 <b>Accumulated Depreciation</b>				
Land and Land Improvements	73,942	\$ 16,232	\$ -	90,174
Building	1,833,579	356,082	(1,441)	2,188,220
Fixed Equipment	1,225,409	88,048	(163,771)	1,149,686
Major Movable Equipment	2,416,838	456,623	(198,003)	2,675,458
<b>Totals</b>	<b>5,549,768</b>	<b>\$ 916,985</b>	<b>\$ (363,215)</b>	<b>6,103,538</b>
	<u>\$ 11,441,188</u>			<u>\$ 10,954,223</u>
<b>Capital Assets</b>	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land and Land Improvements	\$ 339,200	\$ -	\$ -	\$ 339,200
Building	10,658,309	3,063	-	10,661,372
Fixed Equipment	2,094,827	57,460	(32,060)	2,120,227
Major Movable Equipment	3,462,592	454,909	(214,710)	3,702,791
Construction in Progress	127,673	167,366	(127,673)	167,366
<b>Totals</b>	<b>16,682,601</b>	<b>\$ 682,798</b>	<b>\$ (374,443)</b>	<b>16,990,956</b>
 <b>Accumulated Depreciation</b>				
Land and Land Improvements	57,460	\$ 16,482	\$ -	73,942
Building	1,476,058	357,521	-	1,833,579
Fixed Equipment	1,168,429	86,076	(29,096)	1,225,409
Major Movable Equipment	2,231,569	389,637	(204,368)	2,416,838
<b>Totals</b>	<b>4,933,516</b>	<b>\$ 849,716</b>	<b>\$ (233,464)</b>	<b>5,549,768</b>
	<u>\$ 11,749,085</u>			<u>\$ 11,441,188</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 CAPITAL ASSETS (CONTINUED)**

The Health System had the following assets under capital lease included in property and equipment at June 30, 2004 and 2003.

	2004	2003
Major Movable Equipment	\$ 383,902	\$ 383,902
Less Accumulated Amortization	(327,318)	(253,496)
Total	\$ 56,584	\$ 130,406

Construction in progress at June 30, 2003, consisted of costs for a computer system conversion. The project was completed during fiscal 2004 at a total cost of approximately \$300,000. The project was funded from the Health System's reserves, therefore, no interest was capitalized.

**NOTE 7 LONG-TERM DEBT**

A schedule of changes in long-term debt for the years ended June 30, 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2003	\$ -	\$ 6,735,000	\$ -	\$ 6,735,000	\$ 165,000
Hospital Revenue Bonds, Series 1998	6,670,000	-	(6,670,000)	-	-
Obligations Under Capital Lease	129,559	-	(74,750)	54,809	54,809
	6,799,559	6,735,000	(6,744,750)	6,789,809	219,809
Bond Discount	-	(23,295)	815	(22,480)	-
Deferred Loss on Bond Refinancing	-	(148,340)	5,166	(143,174)	-
Total Long-Term Debt	\$ 6,799,559	\$ 6,563,365	\$ (6,738,769)	\$ 6,624,155	\$ 219,809
	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Bonds, Series 1998	\$ 6,785,000	\$ -	\$ (115,000)	\$ 6,670,000	\$ 120,000
Obligations Under Capital Lease	204,041	-	(74,482)	129,559	74,840
Total Long-Term Debt	\$ 6,989,041	\$ -	\$ (189,482)	\$ 6,799,559	\$ 194,840

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

**Hospital Revenue Bonds Series 1998**

The Board of Supervisors of Palo Alto County, Iowa authorized the issuance of the \$7,000,000 Hospital Revenue Bond, Series 1998 to finance a construction project for the purpose of enlarging and improving the Health System facility. The bonds are payable solely from revenues of the Health System and do not constitute indebtedness of the County. The bonds bear interest at rates varying from 4.25% to 6.0%, with interest payments due semi-annually on February 1 and August 1 through August 2028.

The Health System issued Palo Alto County Hospital Revenue Refunding Bonds, Series 2003 in the amount of \$6,735,000 dated August 1, 2003, in order refund the outstanding Hospital Revenue Bonds, Series 1998. The purpose of the refunding was to reduce the overall effective interest rates on the outstanding bond obligation.

**Hospital Revenue Bonds Series 2003**

The Hospital Revenue Bonds, Series 2003 were issued in the amount of \$6,735,000 on August 1, 2003. Payments of interest at rates from 1.7% to 5.4% are payable semi-annually on February 1 and August 1, and principal payments are due annually on August 1 through 2029. The bonds are collateralized by the patient revenues of the Health System.

The Health System is subject to certain covenants under the bond agreement regarding the funding of debt reserve and sinking fund accounts. The Health System was in compliance with these covenants for the years ended June 30, 2004 and 2003.

The Health System has entered into capital lease obligations for certain medical equipment. The equipment and related liability under the capital leases were recorded at the present value of the future payments due under the lease as determined with various discount rates ranging from 4.95% to 5.76%.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

<u>Years Ending June 30:</u>	<u>Long Term Debt</u>		<u>Obligations Under Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 165,000	\$ 295,249	\$ 54,809	\$ 1,455
2006	170,000	292,146	-	-
2007	175,000	288,346	-	-
2008	175,000	283,796	-	-
2009	180,000	278,556	-	-
2010-2014	1,015,000	1,286,152	-	-
2015-2019	1,250,000	1,038,407	-	-
2020-2024	1,595,000	677,207	-	-
2025-2029	2,010,000	239,575	-	-
	<u>\$ 6,735,000</u>	<u>\$ 4,679,434</u>	<u>\$ 54,809</u>	<u>\$ 1,455</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 8 PENSION AND RETIREMENT BENEFITS**

The Health System 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 salary and the Health System is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health System's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$292,928, \$273,153, and \$254,714, respectively, equal to the required contributions for each year.

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

**Health System Risk Management**

The Health System 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Malpractice Insurance**

The Health System has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**NOTE 10 RELATED ORGANIZATION**

**Master Affiliation Agreement**

The Health System has a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Palo Alto County and the North Central Iowa region. As part of the Master Affiliation Agreement, the Health System entered into a Professional Services Agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides professional medical services as well as staff employees in support of the physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to \$1,353,804 and \$1,288,506 for the years ended June 30, 2004 and 2003, respectively.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 10 RELATED ORGANIZATION (CONTINUED)**

Operating gains and losses from the consolidated operation of Health System services and Mercy Medical Center - North Iowa services are shared in accordance with formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated to Mercy Medical Center – North Iowa amounted to \$0 and \$125,945 for the years ended June 30, 2004 and 2003, respectively.

**Management Services Arrangement**

The Health System has a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Health System. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health System. Expenses for the administrative and management services for the years ended June 30, 2004 and 2003 were approximately \$99,500 and \$95,000 respectively.

**Due To/From Affiliated Organization**

As of June 30, 2004 and 2003 Palo Alto Health System's records reflect a due to Mercy Medical Center – North Iowa of \$192,287 and \$298,292, respectively, for the various services and distributions related to these agreements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
JUNE 30, 2004**

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

	General Fund	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 511,117	\$ -	\$ 511,117	\$ 496,472	\$ 14,645
Estimated Other Revenues/Receipts	12,988,531	350,298	13,338,829	14,864,748	(1,525,919)
	13,499,648	350,298	13,849,946	15,361,220	(1,511,274)
Expenses/Disbursements	13,665,252	(36,661)	13,628,591	14,569,818	(941,227)
Net	(165,604)	386,959	221,355	791,402	(570,047)
Balance Beginning of Year	12,631,450	(5,502,337)	7,129,113	7,673,605	(544,492)
Balance End of Year	<u>\$ 12,465,846</u>	<u>\$ (5,115,378)</u>	<u>\$ 7,350,468</u>	<u>\$ 8,465,007</u>	<u>\$ (1,114,539)</u>

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## OTHER SUPPLEMENTARY INFORMATION

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF NET PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 1,072,370	\$ 867,205
Intensive Care Unit	3,653	10,400
Nursery	66,389	60,669
Long Term Care	774,212	703,808
Total	<u>1,916,624</u>	<u>1,642,082</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	1,062,890	964,682
Labor and Delivery Room	38,286	39,761
Anesthesiology	323,020	272,847
Radiology	2,429,933	2,095,468
Laboratory	2,185,970	1,981,126
Respiratory Therapy	738,512	436,429
Physical Therapy	592,797	581,381
Audiology	9,350	7,165
Occupational Therapy	196,767	145,927
Speech Therapy	7,378	14,996
Electrocardiology	453,973	414,488
Medical and Surgical Supplies	625,707	661,308
Pharmacy	1,138,764	916,644
Graettinger Clinic	424,011	437,990
Emmetsburg Clinic	2,704,999	2,485,017
West Bend Clinic	636,997	680,396
Emergency Room	1,258,946	1,157,772
Ambulance	353,047	343,059
Home Health	457,460	462,985
Hospice	253,859	257,859
Total	<u>15,892,666</u>	<u>14,357,300</u>
Total	17,809,290	15,999,382
Charity Care	<u>(40,002)</u>	<u>(40,370)</u>
Total Patient Service Revenues	17,769,288	15,959,012
Adjustments to Patient Services Revenues	<u>(5,751,648)</u>	<u>(3,355,374)</u>
Net Patient Service Revenues	<u>\$ 12,017,640</u>	<u>\$ 12,603,638</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 1,072,370	\$ 867,205	\$ -	\$ -
3,653	10,400	-	-
66,389	60,669	-	-
774,212	703,808	-	-
<u>1,916,624</u>	<u>1,642,082</u>	<u>-</u>	<u>-</u>
169,396	199,173	893,494	765,509
38,286	39,761	-	-
48,184	63,863	274,836	208,984
349,947	278,946	2,079,986	1,816,522
551,839	483,955	1,634,131	1,497,171
601,390	328,355	137,122	108,074
137,598	106,575	455,199	474,806
-	-	9,350	7,165
33,276	17,117	163,491	128,810
2,627	3,606	4,751	11,390
48,759	50,346	405,214	364,142
168,026	193,398	457,681	467,910
570,021	491,290	568,743	425,354
-	-	424,011	437,990
-	-	2,704,999	2,485,017
-	-	636,997	680,396
139,106	104,621	1,119,840	1,053,151
-	-	353,047	343,059
-	-	457,460	462,985
38,981	93,511	214,878	164,348
<u>2,897,436</u>	<u>2,454,517</u>	<u>12,995,230</u>	<u>11,902,783</u>
<u>\$ 4,814,060</u>	<u>\$ 4,096,599</u>	<u>\$ 12,995,230</u>	<u>\$ 11,902,783</u>

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**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 3,650,149	\$ 2,455,782
Contractual Adjustments - Medicaid	164,405	91,734
Provision for Bad Debt	299,441	238,869
Other Allowances and Adjustments	1,637,653	568,989
 Total Adjustments	 \$ 5,751,648	 \$ 3,355,374
<b>OTHER REVENUES</b>		
Meal Sold	\$ 61,367	\$ 53,891
Lifeline	34,912	31,259
Rural Transition Grant	71,285	27,773
Home Health Support	333,227	313,149
Miscellaneous	15,023	9,723
 Total Other Revenue	 \$ 515,814	 \$ 435,795

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ 460,362	\$ 451,222
Capital Related Costs - Moveable Equipment	456,623	398,494
Employee Benefits	1,541,209	1,392,101
Administrative and General	1,161,138	1,016,097
Operation of Plant	366,024	351,043
Laundry and Linen	7,990	8,748
Housekeeping	125,690	118,996
Dietary	328,872	304,398
Nursing Administration	102,000	103,913
Medical Records	156,516	139,217
Adults and Pediatrics	670,954	642,020
Intensive Care Unit	11,059	18,211
Nursery	31,246	29,964
Long Term Care	463,922	435,363
Operating Room	234,158	248,212
Labor and Delivery Room	24,759	27,812
Anesthesiology	215,742	160,268
Radiology	542,472	572,667
Laboratory	675,303	590,730
Blood	44,351	53,365
Respiratory Therapy	43,369	46,011
Physical Therapy	223,151	222,284
Occupational Therapy	131,760	134,905
Speech Pathology	8,957	11,228
Electrocardiology	148,551	141,644
Audiology	3,633	3,944
Medical Supplies Charged to Patients	316,774	312,399
Pharmacy	336,166	246,211
Graettinger Clinic	329,913	370,482
Emmetsburg Clinic	2,073,000	2,109,491
West Bend Clinic	489,480	575,133
Emergency	565,982	556,301
Ambulance	255,823	226,675
Home Health	551,894	488,879
Diabetic Education	5,478	-
Hospice	91,533	112,314
Apartments	126,991	80,809
Van Expense	205	112
Interest Expense	342,202	405,457
<b>TOTAL</b>	<b>\$ 13,665,252</b>	<b>\$ 13,107,120</b>

SALARIES		OTHER	
2004	2003	2004	2003
\$ -	\$ -	\$ 460,362	\$ 451,222
-	-	456,623	398,494
-	-	1,541,209	1,392,101
524,205	493,622	636,933	522,475
124,725	115,300	241,299	235,743
7,621	8,045	369	703
106,521	99,735	19,169	19,261
207,089	193,175	121,783	111,223
98,438	101,025	3,562	2,888
128,242	113,926	28,274	25,291
610,652	586,602	60,302	55,418
10,176	16,372	883	1,839
28,751	25,339	2,495	4,625
418,610	388,564	45,312	46,799
126,912	119,439	107,246	128,773
23,224	26,286	1,535	1,526
-	-	215,742	160,268
262,660	240,832	279,812	331,835
260,676	240,664	414,627	350,066
4,101	4,381	40,250	48,984
13,446	13,700	29,923	32,311
192,580	186,758	30,571	35,526
114,201	122,579	17,559	12,326
-	-	8,957	11,228
71,503	68,670	77,048	72,974
-	-	3,633	3,944
100,919	95,918	215,855	216,481
-	-	336,166	246,211
155,883	152,593	174,030	217,889
466,038	449,754	1,606,962	1,659,737
187,863	171,644	301,617	403,489
217,538	203,882	348,444	352,419
182,019	162,848	73,804	63,827
422,777	390,811	129,117	98,068
5,158	-	320	-
43,706	40,195	47,827	72,119
23,537	19,572	103,454	61,237
-	-	205	112
-	-	342,202	405,457
<u>\$ 5,139,771</u>	<u>\$ 4,852,231</u>	<u>\$ 8,525,481</u>	<u>\$ 8,254,889</u>

**PALO ALTO COUNTY HOSPITAL D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE  
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,768,900	59 %	\$ 1,273,756	49 %
31-60 Days	521,094	17 %	669,820	26 %
61-90 Days	171,885	6 %	218,526	8 %
91 Days and Over	549,748	18 %	431,144	17 %
Total Accounts Receivable	<u>3,011,627</u>	100 %	<u>2,593,246</u>	100 %
<b>ALLOWANCES</b>				
Contractual -				
Medicare, Medicaid and Other	696,532		546,292	
Doubtful Accounts	275,656		261,654	
Net Accounts Receivable	<u>\$ 2,039,439</u>		<u>\$ 1,785,300</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 33,745</u>		<u>\$ 35,185</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>60</u>		<u>51</u>	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 261,654		\$ 289,642	
Add:				
Provision for Doubtful Accounts	299,441	2 %	238,869	2 %
Recoveries Previously Written Off	203,256	2 %	206,175	2 %
	<u>502,697</u>		<u>445,044</u>	
Deduct:				
Accounts Written Off	<u>(488,695)</u>	(4)%	<u>(473,032)</u>	(4)%
Ending Balance	<u>\$ 275,656</u>		<u>\$ 261,654</u>	

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>INVENTORY</b>	June 30,	
	2004	2003
General	\$ 55,395	\$ 37,521
Pharmacy	80,407	80,401
Dietary	7,825	7,614
Clinic Inventory	23,336	17,821
Other	101,978	87,275
<b>TOTAL</b>	<b>\$ 268,941</b>	<b>\$ 230,632</b>

<b>PREPAID EXPENSES</b>	June 30,	
	2004	2003
Prepaid Insurance	\$ 42,516	\$ 44,091
Prepaid Other	39,052	26,623
<b>TOTAL</b>	<b>\$ 81,568</b>	<b>\$ 70,714</b>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2004 AND 2003**

(UNAUDITED)

	<u>2004</u>	<u>2003</u>
<b>ACUTE</b>		
Admissions	628	605
Discharges	627	605
Average Length of Stay	2.9	2.7
Patient Days	1,810	1,617
Occupancy Percentage	15.50 %	13.84 %
Beds	32	32
<b>LONG-TERM CARE</b>		
Admissions	25	24
Discharges	23	27
Patient Days	7,414	6,860
Occupancy Percentage	92.08 %	85.20 %
Beds	22	22
<b>SWING BED</b>		
Admissions	136	115
Discharges	135	115
Patient Days	674	515
<b>NURSERY</b>		
Patient Days	194	187

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS IN  
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Board of Trustees  
Palo Alto County Health System  
Emmetsburg, Iowa

We have audited the accompanying financial statements of Palo Alto County Health System and its discretely presented component unit as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Palo Alto County Health System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Palo Alto County Health System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 04-I-1 and 04-I-2.

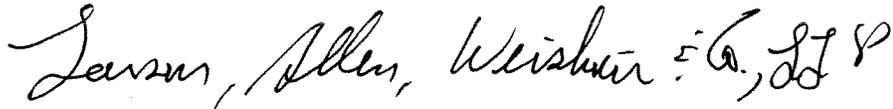
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that might also be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**Compliance**

As part of obtaining reasonable assurance about whether Palo Alto County Health System's financial statements are free of material misstatements, 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 an instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the Schedule of Findings.

We also noted certain additional matters that we reported to management of Palo Alto County Health System in a separate letter dated October 1, 2004.

This report is intended solely for the information and use of the officials, employees and constituents of Palo Alto County Health System and other parties to whom Palo Alto County Health System may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 1, 2004

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part I – Findings Related to Financial Statements**

Reportable Conditions

04-I-1 Payroll Procedures

While reviewing the procedures in place over the payroll process we identified the following issues:

- The individual who processes payroll also has the ability to add employees and to change pay rates.
- Payroll runs are not routinely reviewed by an individual outside the payroll process.
- While it is the policy for department managers to review time cards prior to payroll processing, there is no process for verifying approval.

Recommendation

- The individual who processes payroll should not also have the ability to add employees or change pay rates.
- A process should be added whereby an individual outside of the payroll process routinely reviews all payroll runs.
- Add a step whereby department managers' document their approval over time cards.

Response

We will implement the procedures as recommended.

Conclusion

Response accepted.

04-I-2 Disbursement Cycle

One individual has the ability to add vendors, process accounts payable, has access to the signature stamp and mails payments to vendors, and there is not a detailed review of paid checks.

Recommendation

Further segregate conflicting duties and implement a more detailed review process over paid checks.

Response

We will implement the procedures as recommended.

Conclusion

Response accepted.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**Part II – Findings Related to Required Statutory Reporting**

04-II-1 Official Depository Banks

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-II-2 Certified Budget

Health System cash basis expenditures during the year ended June 30, 2004 did not exceed budgeted amounts.

04-II-3 Questionable Expense

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.

04-II-4 Travel Expense

No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.

04-II-5 Business Transactions

One of the Health System's Board of Directors is President of Iowa Trust and Savings Bank, where the Health System maintains depository accounts. No other business transactions between the Health System and Health System officials and/or employees were noted.

04-II-6 Board Minutes

Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

04-II-7 Deposits and Investments

We noted no instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health System's investment policy.

04-II-8 Publication of Bills Allowed and Salaries

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health System did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

04-II-9 Publication of the Sale of Assets

Chapter 347.3 of the Code of Iowa requires the publication of any personal property prior to its sale. We identified an instance in which the Health System did not publish personal property before its sale.

Recommendation

We recommend that Health System make public notification prior to the sale of any personal property.

Response

The Health System will make public notification prior to the sale of any personal property.

Conclusion

Response accepted