

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2005 AND 2004**

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
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**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
BOARD OF TRUSTEES  
YEAR ENDED 2005**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Hobart	Chair	December 31, 2010
Charles S. Wirtz	Treasurer	December 31, 2006
Gary Hughes	Secretary	December 31, 2008
Mick Conway	Member	December 31, 2010
Tom Magee	Member	December 31, 2006
Ken Kassel	Member	December 31, 2006
Shirley Kruse	Member	December 31, 2008

\* \* \* \* \*

Thomas J. Lee	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, 2005 and 2004, as listed in the table of contents. 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.

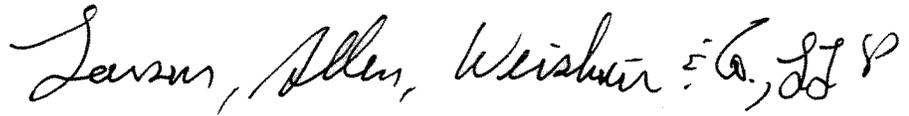
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 Palo Alto County Health System and its discretely presented component unit as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2005 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 9 and page 31 are not a required part of the basic financial statements, but are supplementary information required by Governmental Accounting Standards Board. 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 32 to 38 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 39 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.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
September 29, 2005

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005 AND 2004**

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, 2005. 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, 2005 and 2004 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 increased by \$2,208,210 or 10.0% in 2005 and decreased by \$98,540 or 0.5% in 2004.
- The Health System's net assets increased by \$1,464,857 or 11.8% in 2005 and decreased in 2004 by \$165,604 or 1.3%.
- The Health System reported an operating gain of \$245,735 in 2005 and an operating loss of \$774,417 in 2004. This represents an increase in 2005 of \$1,020,152 and a decrease in 2004 of \$1,026,307.

**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

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005 AND 2004**

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

**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>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets:</b>			
Current Assets	\$ 5,931,343	\$ 4,279,595	\$ 3,568,303
Noncurrent Cash and Investments	6,304,837	5,509,791	5,813,171
Capital Assets, Net	10,704,361	10,954,223	11,441,188
Succeeding Year Property Tax Receivable	470,832	452,354	496,472
Other Assets	166,511	173,711	149,080
<b>Total Assets</b>	<u><u>\$ 23,577,884</u></u>	<u><u>\$ 21,369,674</u></u>	<u><u>\$ 21,468,214</u></u>
<b>Liabilities:</b>			
Current Liabilities	\$ 2,916,978	\$ 2,027,671	\$ 1,721,595
Long-Term Debt (Less Current Maturities)	6,241,212	6,404,346	6,604,719
Deferred Revenue from Succeeding Year			
Property Tax Receivable	470,832	452,354	496,472
Other Liabilities	18,159	19,457	13,978
<b>Total Liabilities</b>	<u><u>9,647,181</u></u>	<u><u>8,903,828</u></u>	<u><u>8,836,764</u></u>
<b>Net Assets:</b>			
Invested in Capital Assets Net of Related Debt	4,293,149	4,330,068	4,641,629
Restricted			
By Bond Agreement	1,096,128	736,540	638,311
By Contributors and Grantors	45,237	44,495	43,674
Unrestricted	8,496,189	7,354,743	7,307,836
<b>Total Net Assets</b>	<u><u>13,930,703</u></u>	<u><u>12,465,846</u></u>	<u><u>12,631,450</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 23,577,884</u></u>	<u><u>\$ 21,369,674</u></u>	<u><u>\$ 21,468,214</u></u>

**PALO ALTO COUNTY HOSPITAL  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005 AND 2004**

Asset categories changing significantly during 2005 and 2004 included Cash and Cash Equivalents, Noncurrent Cash and Investments, and Capital Assets Net. Current Assets increased by \$1,651,748 or 38.6% in 2005 and increased by \$711,292 or 19.9% in 2004. The majority of the increase in the current year is attributed to the increase in cash and cash equivalents which is a result of operations. Non-current Cash and investments increased by \$795,046 or 14.4% and decreased in 2004 by \$303,380 or 5.2%. Capital Assets decreased in 2005 by \$249,862 or 2.3% and decreased in 2004 by \$486,965 or 4.3%.

The current ratio (current assets divided by current liabilities) for 2005 was 2.0 and 2004 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>2005</u>	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES:</b>			
Net Patient Service Revenue	\$ 13,716,417	\$ 12,017,640	\$ 12,603,638
Apartment Revenue	364,409	357,381	319,577
Other Revenue	584,627	515,814	435,795
Total Operating Revenues	<u>14,665,453</u>	<u>12,890,835</u>	<u>13,359,010</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	5,325,582	5,139,771	4,852,231
Employee Benefits	1,397,937	1,541,209	1,392,101
Professional Fees	2,531,700	2,407,699	2,222,632
Utilities	233,295	213,439	208,079
Management, Legal, and Accounting Fees	156,224	179,656	122,490
Insurance	136,025	128,528	133,937
Supplies and Miscellaneous	3,355,726	2,795,763	2,920,477
Depreciation and Amortization	973,509	916,985	849,716
Interest	309,720	342,202	405,457
Total Operating Expenses	<u>14,419,718</u>	<u>13,665,252</u>	<u>13,107,120</u>
<b>OPERATING INCOME (LOSS)</b>	245,735	(774,417)	251,890
<b>DUE TO AFFILIATED ORGANIZATION</b>	(17,881)	-	(125,945)
<b>ADJUSTED OPERATING INCOME (LOSS)</b>	227,854	(774,417)	125,945
Non-Operating Revenues (Expenses)	<u>903,656</u>	<u>608,813</u>	<u>674,975</u>
<b>EXCESS (DEFICIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	1,131,510	(165,604)	800,920
Capital Grants and Contributions	<u>333,347</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	1,464,857	(165,604)	800,920
Net Assets, Beginning of Year	<u>12,465,846</u>	<u>12,631,450</u>	<u>11,830,530</u>
Net Assets, End of Year	<u>\$ 13,930,703</u>	<u>\$ 12,465,846</u>	<u>\$ 12,631,450</u>

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Net patient service revenue made up 93.5% in 2005 and 93.2% in 2004 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. Increases in net revenue relate to increases in Acute days as well as increases in ancillary services, such as Surgery, Anesthesiology, Radiology, Laboratory, Physical Therapy, Pharmacy, Emergency and Clinic.

Table 3 below shows the contractual adjustments that were recognized:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 20,189,029	\$ 17,769,288	\$ 15,959,012
Contractual Adjustments and Provisions for Bad Debt	<u>(6,472,612)</u>	<u>(5,751,648)</u>	<u>(3,355,374)</u>
Net Patient Service Revenue	<u>\$ 13,716,417</u>	<u>\$ 12,017,640</u>	<u>\$ 12,603,638</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>32.06%</u>	<u>32.37%</u>	<u>21.02%</u>

Total operating expenses increased by \$754,466 or 5.5% in 2005 and increased by \$558,132 or 4.3% in 2004. Salary increases and the cost of supplies drove the majority of the increase in expense. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 35-36 of the audited financial statements for this information. Increases in salaries and supplies drove the majority of the increase.

Operating Income (total operating revenue less total operating expenses) was a gain of \$245,735 or 1.7% of total operating revenue in 2005 compared to an operating loss of \$774,417 or (6.0%) in 2004.

Other Operating Revenue increased by \$68,815 or 13.3% and increased by \$80,019 or 18.4% in 2004. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Home Health Support	\$ 361,260	\$ 333,227	\$ 313,149
Lifeline	42,208	34,912	31,259
Meal Sold	66,356	61,367	53,891
Rural Transition Grant	102,888	71,285	27,773
Miscellaneous	<u>11,915</u>	<u>15,023</u>	<u>9,723</u>
Total Other Revenues	<u>\$ 584,627</u>	<u>\$ 515,814</u>	<u>\$ 435,795</u>

Non-operating revenue increased by \$294,843 or 48.4% in 2005 and decreased \$66,162 or 9.8% in 2004. The majority of this additional income during 2005 was related to investment income.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005 AND 2004**

**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>2005</u>	<u>2004</u>	<u>2003</u>
<b>Patient Days</b>			
Acute	1,947	1,810	1,617
Swing Bed	637	674	515
Newborn	217	194	187
Long Term Care	7,214	7,414	6,860
Total	<u>10,015</u>	<u>10,092</u>	<u>9,179</u>
<b>Admissions</b>			
Acute	679	628	605
Swing Bed	134	136	115
Long Term Care	18	25	24
Total	<u>831</u>	<u>789</u>	<u>744</u>
<b>Discharges</b>			
Acute	679	627	605
Swing Bed	134	135	115
Long Term Care	19	23	27
Total	<u>832</u>	<u>785</u>	<u>747</u>
<b>Average Length of Stay, Acute</b>	<u>2.9</u>	<u>2.9</u>	<u>2.7</u>
<b>Beds</b>			
Acute and Swing	25	32	32
Long Term Care	22	22	22
<b>Occupancy Percentage</b>			
Acute and Swing	28.3%	21.3%	18.3%
Long Term Care	89.8%	92.3%	85.4%

**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, 2005 the Health System had \$10,704,361 invested in capital assets net of accumulated depreciation. In 2005, the Health System expended \$637,682 to purchase new equipment. In 2004 the Health System purchased new equipment costing \$638,192.

**PALO ALTO COUNTY HOSPITAL  
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PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005 AND 2004**

**Long Term Debt**

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

**Table 6: Long Term Debt**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Hospital Revenue Bonds, Series 2003	\$ 6,570,000	\$ 6,735,000	\$ -
Hospital Refunding Note, Series 1998	-	-	6,670,000
Capital Lease Obligations	-	54,809	129,559
	<u>6,570,000</u>	<u>6,789,809</u>	<u>6,799,559</u>
Less:			
Bond Discount	(21,548)	(22,480)	-
Deferred Loss on Bond Refinancing	(137,240)	(143,174)	-
	<u>(158,788)</u>	<u>(165,654)</u>	<u>-</u>
Total Long Term Debt	<u>\$ 6,411,212</u>	<u>\$ 6,624,155</u>	<u>\$ 6,799,559</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.

**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 continue to increase.
- Facilities at the Health System require continued 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. There is the need to have the Electronic Health Record in place by 2010.
- 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.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**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 Thomas J. Lee, 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, 2005 AND 2004**

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,372,303	\$ 1,840,677
Patient Receivables, Less Allowance for Uncollectible Accounts (2005, \$355,010, 2004, \$275,656)	2,175,820	2,039,439
Other Receivables	71,241	48,970
Inventories	263,733	268,941
Prepaid Expenses	48,246	81,568
Total Current Assets	5,931,343	4,279,595
 <b>OTHER ASSETS</b>	 166,511	 173,711
 <b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Improvements	5,163,472	4,728,756
Restricted by Bond Agreement	1,096,128	736,540
Restricted by Contributors and Grantors	45,237	44,495
Total Noncurrent Cash and Investments	6,304,837	5,509,791
 <b>SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	 470,832	 452,354
 <b>CAPITAL ASSETS, NET</b>	 10,704,361	 10,954,223
 Total Assets	 \$ 23,577,884	 \$ 21,369,674

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 170,000	\$ 219,809
Accounts Payable	794,841	545,738
Accrued Expenses	896,498	770,324
Third-Party Payor Settlement Payable	1,055,639	491,800
Total Current Liabilities	<u>2,916,978</u>	<u>2,027,671</u>
<b>OTHER LIABILITIES</b>		
Security Deposits	18,159	19,457
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR</b>		
PROPERTY TAX RECEIVABLE	470,832	452,354
<b>LONG-TERM DEBT</b>		
	<u>6,241,212</u>	<u>6,404,346</u>
Total Liabilities	9,647,181	8,903,828
<b>COMMITMENTS AND CONTINGENCIES (See Note 9)</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	4,293,149	4,330,068
Restricted		
By Bond Agreement	1,096,128	736,540
By Contributors and Grantors	45,237	44,495
Unrestricted	8,496,189	7,354,743
Total Net Assets	<u>13,930,703</u>	<u>12,465,846</u>
Total Liabilities and Net Assets	<u>\$ 23,577,884</u>	<u>\$ 21,369,674</u>

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003**

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 47,920	\$ 33,537
Accrued Interest	15,429	9,625
	63,349	43,162
<b>NONCURRENT CASH AND INVESTMENTS</b>	1,450,750	1,370,117
<b>CAPITAL ASSETS, NET</b>	47,827	32,882
Total Assets	\$ 1,561,926	\$ 1,446,161
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Employees	\$ -	\$ 3,700
Property Tax Payable	768	-
<b>NET ASSETS</b>		
Unrestricted	1,561,158	1,442,461
Total Liabilities and Net Assets	\$ 1,561,926	\$ 1,446,161

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
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PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
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	2005	2004
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (net of provision for bad debts of \$424,026 in 2005 and \$299,441 in 2004)	\$ 13,716,417	\$ 12,017,640
Apartment Revenue	364,409	357,381
Other Revenue	584,627	515,814
Total Revenues	14,665,453	12,890,835
<b>EXPENSES</b>		
Salaries and Wages	5,325,582	5,139,771
Employee Benefits	1,397,937	1,541,209
Professional Fees	2,531,700	2,407,699
Utilities	233,295	213,439
Management, Legal, and Accounting Fees	156,224	179,656
Insurance	136,025	128,528
Supplies and Miscellaneous	3,355,726	2,795,763
Depreciation	973,509	916,985
Interest and Amortization	309,720	342,202
Total Expenses	14,419,718	13,665,252
<b>OPERATING INCOME (LOSS)</b>	245,735	(774,417)
<b>DUE TO AFFILIATED ORGANIZATION</b>	(17,881)	-
<b>ADJUSTED OPERATING INCOME (LOSS)</b>	227,854	(774,417)
<b>NON-OPERATING GAINS (LOSSES)</b>		
Investment Income	344,143	35,966
Tax Apportionments	466,908	511,117
Unrestricted Contributions	70,286	57,622
Other Non-Operating Gain	24,449	-
Gain (Loss) on Sale of Property and Equipment	(2,130)	4,108
Non-operating Gains, Net	903,656	608,813
<b>EXCESS (DEFICIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	1,131,510	(165,604)
<b>Capital Contributions and Grants</b>	333,347	-
Increase (Decrease) in Net Assets	1,464,857	(165,604)
Net Assets Beginning of Year	12,465,846	12,631,450
Net Assets End of Year	\$ 13,930,703	\$ 12,465,846

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
Investment Income	\$ 109,487	\$ 74,080
Rental Income	7,700	2,600
Contributions	3,860	2,665
Total Revenues	<u>121,047</u>	<u>79,345</u>
<b>EXPENSES</b>		
Depreciation	1,535	535
Property Taxes	768	-
Other Expenses	47	203
Contributions to Health System	-	10,000
Total Expenses	<u>2,350</u>	<u>10,738</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	118,697	68,607
Net Assets Beginning of Year	<u>1,442,461</u>	<u>1,373,854</u>
Net Assets End of Year	<u><u>\$ 1,561,158</u></u>	<u><u>\$ 1,442,461</u></u>

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, 2005 AND 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Party Payors	\$ 14,508,284	\$ 12,700,573
Cash Paid to Employees	(6,596,176)	(6,608,475)
Cash Paid to Suppliers	(6,125,337)	(6,019,162)
Other Receipts and Payments, Net	544,475	544,668
Net Cash Provided by Operating Activities	2,331,246	617,604
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Restricted and Unrestricted Contributions	403,633	57,622
Tax Apportionments	466,908	511,117
Net Cash Provided by Non-Capital Financing Activities	870,541	568,739
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	(221,264)	(6,744,750)
Proceeds from the Issuance of Long-Term Debt	-	6,735,000
Discount on Bond Issue	-	(23,295)
Proceeds from Sale of Property and Equipment	53	431
Cash Paid for Bond Issue Costs	-	(58,781)
Acquisition of Capital Assets	(725,829)	(500,199)
Interest Payments on Long-term Debt	(296,823)	(367,465)
Cash Received for Insurance Proceeds	24,449	-
Net Cash Used by Capital and Related Financing Activities	(1,219,414)	(959,059)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(956,645)	(2,201,781)
Sale of Investments	463,015	2,061,932
Interest Income	42,883	479,195
(Increase) Decrease in Other Assets	-	(41,895)
Net Cash Provided (Used) by Investing Activities	(450,747)	297,451
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,531,626	524,735
Cash and Cash Equivalents - Beginning	1,840,677	1,315,942
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 3,372,303	\$ 1,840,677

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, 2005 AND 2004**

	2005	2004
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Adjusted Operating Income (Loss)	\$ 227,854	\$ (774,417)
Adjustments to Reconcile Adjusted Operating Income (Loss) to Net Cash Provided by Operating Activities :		
Depreciation	973,509	916,985
Interest Expense Considered Capital and Related Financing Activity	296,823	367,465
Amortization of Bond Issue Costs	14,066	13,021
Decrease (Increase) In:		
Patient Receivables	(136,381)	(254,139)
Accounts Receivable - Other	(22,271)	28,854
Third-Party Payor Settlement Receivable	-	87,891
Inventories	5,208	(38,309)
Prepaid Expenses	33,322	(10,854)
Increase (Decrease) In:		
Accounts Payable	249,103	(244,914)
Accrued Expenses	126,174	34,221
Third-Party Payor Settlement Payable	563,839	491,800
Net Cash Provided by Operating Activities	\$ 2,331,246	\$ 617,604

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase In Unrestricted Net Assets	\$ 118,697	\$ 68,607
Adjustments to Reconcile Excess of Operating Revenues over Operating Expenses to Net Cash Provided by Operating Activities:		
Depreciation	1,535	535
Amortization of Premiums on Investments	5,278	5,442
(Increase) Decrease in:		
Accrued Interest Receivable	(5,804)	1,615
Increase (Decrease) in:		
Due to Employees	(3,700)	(10)
Property Tax Payable	768	-
Net Cash Provided by Operating Activities	116,774	76,189
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for Capital Expenditures	(16,480)	(23,520)
Net Cash Used by Financing Activities	(16,480)	(23,520)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(225,000)	(125,000)
Sale of Investments	175,000	100,000
Change in Market Value of Investments	(31,090)	-
Interest Capitalized to CDs	(4,821)	(2,754)
Net Cash Used by Investing Activities	(85,911)	(27,754)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	14,383	24,915
Cash and Cash Equivalents - Beginning	33,537	8,622
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 47,920	\$ 33,537

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, 2005 AND 2004**

**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. 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 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.

PALO ALTO COUNTY HOSPITAL  
D/B/A  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

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

**C. 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.

**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, 2005 and 2004, the allowance for uncollectible accounts was \$355,010 and \$275,656, respectively.

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

*Capital Assets, Net* - Capital assets are stated on the basis of cost. The provision for depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenses 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, 2005 AND 2004**

**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, 2005 and 2004, accumulated amortization was \$13,500 and \$6,300 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, 2005 and 2004, accumulated amortization was \$11,100 and \$5,166, 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, 2005 AND 2004**

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

**E. 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, 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.

**F. 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.

**G. 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**H. 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.

**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, 2005 and 2004 was \$42,001 and \$40,002, 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, 2005 AND 2004**

**NOTE 2 DESIGNATED NET ASSETS**

Of the \$8,496,189 and \$7,354,743 of unrestricted net assets at June 30, 2005 and 2004, respectively, the Board of Trustees has designated \$5,163,472 and \$4,728,756, 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**

The Health System has received certification as a Critical Access Hospital (CAH) effective July 1, 2004 and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. 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 Health System. Medicare cost reports through fiscal year ended June 30, 2001 have been settled.

**Medicaid**

The Health System has received certification as a Critical Access Hospital (CAH) effective July 1, 2004 and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. Medicaid cost reports through June 30, 2001 have been settled.

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 10%, respectively, of the Health System's net patient revenue for the year ended 2005, and 53% and 10%, respectively, of the Health System's net patient revenue, for the year ended 2004. Laws and regulations governing the Medicare and Medicaid 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.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 20,189,029	\$ 17,769,288
Contractual Adjustments:		
Medicare	4,137,460	3,461,775
Medicaid	439,658	511,593
Provision for Bad Debt	424,026	299,441
Other	1,471,468	1,478,839
Total Contractual Adjustments and Bad Debts	<u>6,472,612</u>	<u>5,751,648</u>
Net Patient Service Revenue	<u>\$ 13,716,417</u>	<u>\$ 12,017,640</u>

**NOTE 4 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Health System at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,689,400	\$ 1,513,528
Receivable from Medicare	627,479	639,364
Receivable from Medicaid	213,951	162,203
Total Patient Receivables	<u>2,530,830</u>	<u>2,315,095</u>
Less Allowance for Doubtful Accounts	<u>(355,010)</u>	<u>(275,656)</u>
Patient Receivables, Net	<u>\$ 2,175,820</u>	<u>\$ 2,039,439</u>

**NOTE 5 DEPOSITS AND INVESTMENTS**

The Health System's deposits at June 30, 2005 were entirely covered by Federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health 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 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.

The Health System's investment policy does not limit investments on interest rate risk and credit risk. The Health System complies with State of Iowa statutes in regards to interest rate and credit risk.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

**Palo Alto County Health System**

At June 30, 2005 and 2004 the Health System's Deposits and Investments at Fair Market Value are as follows:

	2005	2004
Deposits	\$ 5,486,294	\$ 3,445,037
Iowa Public Agency Investment Trust	149,112	146,852
Federal Home Loan Bank	2,266,983	2,214,100
Federal National Mortgage Association	1,563,177	1,504,855
Bear Stearns Temp Fund	211,574	39,624
	\$ 9,677,140	\$ 7,350,468

- Iowa Public Agency Investment Trust: The Iowa Public Agency Investment Trust was created to enable eligible Iowa public agencies to safely and effectively invest their available operating and reserve funds. This trust is a professionally managed portfolio of short-term, high-quality, legally authorized marketable securities.
- Federal Home Loan Bank: Notes mature from 2008 to 2019, interest rates ranging from 3.25% to 8.0% and have AAA ratings by Standard & Poor's.
- Federal National Mortgage Association: Notes mature from 2011 to 2019, interest rates ranging from 3.5% to 8.0% and have AAA ratings by Standard & Poor's.
- Bear Stearns Temp Fund: A fund invested in a broad range of U.S. dollar dominated money market instruments, including government, bank, commercial obligations and repurchase agreements relating to such obligations.

	2005	2004
Included in the following balance sheet captions:		
Cash and Cash Equivalents	\$ 3,372,303	\$ 1,840,677
Noncurrent Cash and Investments		
Internally Designated for Capital Improvements	5,163,472	4,728,756
Restricted by Bond Agreement	1,096,128	736,540
Restricted by Contributors or Grantors	45,237	44,495
	\$ 9,677,140	\$ 7,350,468

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

**Palo Alto County Health Care Foundation**

At December 31, 2004 and 2003 the Foundation's Deposits and Investments at Fair Market Value are as follows:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 277,741	\$ 33,537
U.S. Treasury Notes	1,170,929	1,312,745
U.S. Treasury Bonds	50,000	57,372
	<u>\$ 1,498,670</u>	<u>\$ 1,403,654</u>

U.S. Treasury Notes: Notes mature from 2005 to 2012, interest rates ranging from 4.0% to 7.5% and have AAA ratings by Standard & Poor's.

- o U.S. Treasury Bonds: Bonds mature in 2010, interest rate of 10.0% and has AAA ratings by Standard & Poor's.

	<u>2004</u>	<u>2003</u>
Included in the following balance sheet captions:		
Cash and Cash Equivalents	\$ 47,920	\$ 33,537
Noncurrent Cash and Investments	1,450,750	1,370,117
	<u>\$ 1,498,670</u>	<u>\$ 1,403,654</u>

**NOTE 6 CAPITAL ASSETS**

A summary of capital assets for the years ended June 30, 2005 and 2004 is as follows:

<b>Capital Assets</b>	July 1, 2004	Additions	(Retirements)	June 30, 2005
Land and Land Improvements	\$ 339,200	\$ 12,381	\$ -	\$ 351,581
Building	10,595,290	66,500	-	10,661,790
Fixed Equipment	1,983,559	-	(1,303)	1,982,256
Major Movable Equipment	4,139,711	637,682	(144,948)	4,632,445
Construction in Progress	-	9,266	-	9,266
Totals	17,057,760	<u>\$ 725,829</u>	<u>\$ (146,251)</u>	17,637,338
<b>Accumulated Depreciation</b>				
Land and Land Improvements	90,173	\$ 20,944	\$ -	111,117
Building	2,188,220	353,430	-	2,541,650
Fixed Equipment	1,145,972	88,715	(1,303)	1,233,384
Major Movable Equipment	2,679,172	510,420	(142,766)	3,046,826
Totals	6,103,537	<u>\$ 973,509</u>	<u>\$ (144,069)</u>	6,932,977
	<u>\$ 10,954,223</u>			<u>\$ 10,704,361</u>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 6 CAPITAL ASSETS (CONTINUED)**

<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	(68,309)	10,595,290
Fixed Equipment	2,120,226	27,146	(163,813)	1,983,559
Major Movable Equipment	3,702,792	638,192	(201,273)	4,139,711
Construction in Progress	167,366	-	(167,366)	-
<b>Totals</b>	<b>16,990,956</b>	<b>\$ 667,565</b>	<b>\$ (600,761)</b>	<b>17,057,760</b>
<b>Accumulated Depreciation</b>				
Land and Land Improvements	73,942	\$ 16,231	\$ -	90,173
Building	1,833,579	356,082	(1,441)	2,188,220
Fixed Equipment	1,221,695	88,048	(163,771)	1,145,972
Major Movable Equipment	2,420,552	456,623	(198,003)	2,679,172
<b>Totals</b>	<b>5,549,768</b>	<b>\$ 916,984</b>	<b>\$ (363,215)</b>	<b>6,103,537</b>
	<u>\$ 11,441,188</u>			<u>\$ 10,954,223</u>

Construction in progress at June 30, 2005, consists of costs incurred for the purchase of computer software and hardware. The project is expected to be completed during fiscal year 2006 with a total cost of approximately \$13,000. The project is being funded from the Health System's cash reserves.

The Health System had the following assets under capital lease included in property and equipment at June 30, 2005 and 2004.

	2005	2004
Major Movable Equipment	\$ 383,902	\$ 383,902
Less Accumulated Amortization	(383,902)	(327,318)
<b>Total</b>	<b>\$ -</b>	<b>\$ 56,584</b>

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 7 LONG-TERM DEBT**

A schedule of changes in long-term debt for the years ended June 30, 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2003	\$ 6,735,000	\$ -	\$ (165,000)	\$ 6,570,000	\$ 170,000
Obligations Under Capital Lease	54,809	-	(54,809)	-	-
	6,789,809	-	(219,809)	6,570,000	170,000
Bond Discount	(22,480)		932	(21,548)	-
Deferred Loss on Bond Refinancing	(143,174)		5,934	(137,240)	-
<b>Total Long-Term Debt</b>	<b>\$ 6,624,155</b>	<b>\$ -</b>	<b>\$ (212,943)</b>	<b>\$ 6,411,212</b>	<b>\$ 170,000</b>

	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)	-
<b>Total Long-Term Debt</b>	<b>\$ 6,799,559</b>	<b>\$ 6,563,365</b>	<b>\$ (6,738,769)</b>	<b>\$ 6,624,155</b>	<b>\$ 219,809</b>

**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 rate which amounted to a net present value economic benefit of approximately \$660,000.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

**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, 2005 and 2004.

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%. The capital lease obligations were paid off during 2005.

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>Principal</u>	<u>Interest</u>
2006	\$ 170,000	\$ 292,146
2007	175,000	288,346
2008	175,000	283,796
2009	180,000	278,556
2010	190,000	272,536
2010-2014	1,050,000	1,244,157
2015-2019	1,310,000	984,208
2020-2024	1,680,000	714,310
2025-2029	1,640,000	382,837
	<u>\$ 6,570,000</u>	<u>\$ 4,740,892</u>

**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, 2005, 2004, and 2003 were \$301,048, \$292,495, and \$273,059, respectively, equal to the required contributions for each year.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**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.

**Litigation**

The Health System is involved in litigation resulting from the normal course of business. The litigation is in the discovery stage and may ultimately be brought to trial. It is the intent of legal council and management, to vigorously defend the Health System in regards to this case. Due to being in the early stages of litigation an evaluation of the likelihood of an unfavorable outcome and estimate of potential loss, if any, to the Health System is not possible.

**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 services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health System 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.

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**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 \$1,297,783 and \$1,353,804 for the years ended June 30, 2005 and 2004, respectively.

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 \$17,881 and \$- for the years ended June 30, 2005 and 2004, 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, 2005 and 2004 were \$105,530 and \$99,450 respectively.

**Due To/From Affiliated Organization**

As of June 30, 2005 and 2004 Palo Alto Health System's records reflect a due to Mercy Medical Center - North Iowa of \$267,783 and \$192,287, respectively, for the various services and distributions related to these agreements.

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**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 AND NOTES  
BUDGET AND ACTUAL (CASH BASIS)  
JUNE 30, 2005**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 466,908	\$ -	\$ 466,908	\$ 452,354	\$ 14,554
Estimated Other Revenues/Receipts	15,435,548	551,244	15,986,792	15,251,270	735,522
	<u>15,902,456</u>	<u>551,244</u>	<u>16,453,700</u>	<u>15,703,624</u>	<u>750,076</u>
Expenses/Disbursements Net	14,437,599	484,475	14,922,074	14,848,494	73,580
	<u>1,464,857</u>	<u>66,769</u>	<u>1,531,626</u>	<u>855,130</u>	<u>676,496</u>
Balance Beginning of Year	12,465,846	(10,625,169)	1,840,677	8,016,631	(6,175,954)
Balance End of Year	<u>\$ 13,930,703</u>	<u>\$ (10,558,400)</u>	<u>\$ 3,372,303</u>	<u>\$ 8,871,761</u>	<u>\$ (5,499,458)</u>

**NOTE 1**

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

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. During 2005 the budget was not amended.

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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, 2005 AND 2004**

	TOTAL	
	2005	2004
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 1,218,069	\$ 1,072,370
Intensive Care Unit	3,836	3,653
Nursery	77,680	66,389
Long Term Care	772,689	774,212
Total	<u>2,072,274</u>	<u>1,916,624</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	1,473,240	1,062,890
Labor and Delivery Room	60,350	38,286
Anesthesiology	476,960	323,020
Radiology	2,865,668	2,429,933
Laboratory	2,552,538	2,185,970
Respiratory Therapy	751,265	738,512
Physical Therapy	781,672	592,797
Audiology	13,977	9,350
Occupational Therapy	90,425	196,767
Speech Therapy	3,859	7,378
Electrocardiology	535,037	453,973
Medical and Surgical Supplies	485,050	625,707
Pharmacy	1,373,413	1,138,764
Graettinger Clinic	459,211	424,011
Emmetsburg Clinic	2,975,177	2,704,999
West Bend Clinic	673,713	636,997
Emergency Room	1,531,565	1,258,946
Ambulance	417,552	353,047
Home Health	412,532	457,460
Hospice	225,552	253,859
Total	<u>18,158,756</u>	<u>15,892,666</u>
Total	20,231,030	17,809,290
Charity Care	<u>(42,001)</u>	<u>(40,002)</u>
Total Patient Service Revenues	20,189,029	17,769,288
Adjustments to Patient Services Revenues	<u>(6,472,612)</u>	<u>(5,751,648)</u>
Net Patient Service Revenues	<u>\$ 13,716,417</u>	<u>\$ 12,017,640</u>

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 1,218,069	\$ 1,072,370	\$ -	\$ -
3,836	3,653	-	-
77,680	66,389	-	-
772,689	774,212	-	-
<u>2,072,274</u>	<u>1,916,624</u>	-	-
307,867	169,396	1,165,373	893,494
60,350	38,286	-	-
82,143	48,184	394,817	274,836
330,858	349,947	2,534,810	2,079,986
483,734	551,839	2,068,804	1,634,131
559,243	601,390	192,022	137,122
140,809	137,598	640,863	455,199
-	-	13,977	9,350
17,571	33,276	72,854	163,491
2,084	2,627	1,775	4,751
46,646	48,759	488,391	405,214
128,483	168,026	356,567	457,681
606,741	570,021	766,672	568,743
-	-	459,211	424,011
-	-	2,975,177	2,704,999
-	-	673,713	636,997
105,328	139,106	1,426,237	1,119,840
-	-	417,552	353,047
-	-	412,532	457,460
22,079	38,981	203,473	214,878
<u>2,893,936</u>	<u>2,897,436</u>	<u>15,264,820</u>	<u>12,995,230</u>
<u>\$ 4,966,210</u>	<u>\$ 4,814,060</u>	<u>\$ 15,264,820</u>	<u>\$ 12,995,230</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, 2005 AND 2004**

	2005	2004
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 4,137,460	\$ 3,461,775
Contractual Adjustments - Medicaid	439,658	511,593
Provision for Bad Debt	424,026	299,441
Other Allowances and Adjustments	1,471,468	1,478,839
Total Adjustments	\$ 6,472,612	\$ 5,751,648
<b>OTHER REVENUES</b>		
Meal Sold	\$ 66,356	\$ 61,367
Lifeline	42,208	34,912
Rural Transition Grant	102,888	71,285
Home Health Support	361,260	333,227
Miscellaneous	11,915	15,023
Total Other Revenues	\$ 584,627	\$ 515,814

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 464,607	\$ 460,362
Capital Related Costs - Moveable Equipment	508,902	456,623
Employee Benefits	1,397,937	1,541,209
Administrative and General	1,237,185	1,161,138
Operation of Plant	385,863	366,024
Laundry and Linen	13,898	7,990
Housekeeping	125,461	125,690
Dietary	350,311	328,872
Nursing Administration	101,543	102,000
Medical Records	175,698	156,516
Adults and Pediatrics	724,713	670,954
Intensive Care Unit	2,262	11,059
Nursery	40,735	31,246
Long Term Care	507,911	463,922
Operating Room	445,444	234,158
Labor and Delivery Room	22,764	24,759
Anesthesiology	240,176	215,742
Radiology	631,752	542,472
Laboratory	721,241	675,303
Blood	105,404	44,351
Respiratory Therapy	55,685	43,369
Physical Therapy	240,099	223,151
Occupational Therapy	118,613	131,760
Speech Pathology	4,788	8,957
Electrocardiology	179,851	148,551
Audiology	5,226	3,633
Medical Supplies Charged to Patients	179,361	316,774
Pharmacy	381,416	336,166
Graettinger Clinic	331,597	329,913
Emmetsburg Clinic	2,168,484	2,073,000
West Bend Clinic	470,924	489,480
Emergency	669,470	565,982
Ambulance	313,661	255,823
Home Health	597,688	551,894
Diabetic Education	7,215	5,478
Hospice	91,049	91,533
Apartments	91,038	126,991
Van Expense	26	205
Interest Expense	309,720	342,202
<b>TOTAL</b>	<b>\$ 14,419,718</b>	<b>\$ 13,665,252</b>

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 464,607	\$ 460,362
-	-	508,902	456,623
-	-	1,397,937	1,541,209
458,716	524,205	778,469	636,933
129,050	124,725	256,813	241,299
13,093	7,621	805	369
106,485	106,521	18,976	19,169
219,492	207,089	130,819	121,783
94,717	98,438	6,826	3,562
140,417	128,242	35,281	28,274
633,232	610,652	91,481	60,302
(473)	10,176	2,735	883
35,242	28,751	5,493	2,495
438,589	418,610	69,322	45,312
245,371	126,912	200,073	107,246
18,047	23,224	4,717	1,535
-	-	240,176	215,742
281,799	262,660	349,953	279,812
267,769	260,676	453,472	414,627
6,869	4,101	98,535	40,250
13,174	13,446	42,511	29,923
205,518	192,580	34,581	30,571
97,808	114,201	20,805	17,559
-	-	4,788	8,957
85,325	71,503	94,526	77,048
-	-	5,226	3,633
12,178	100,919	167,183	215,855
-	-	381,416	336,166
153,040	155,883	178,557	174,030
512,961	466,038	1,655,523	1,606,962
187,842	187,863	283,082	301,617
286,077	217,538	383,393	348,444
166,994	182,019	146,667	73,804
439,625	422,777	158,063	129,117
7,215	5,158	-	320
45,414	43,706	45,635	47,827
23,996	23,537	67,042	103,454
-	-	26	205
-	-	309,720	342,202
<u>\$ 5,325,582</u>	<u>\$ 5,139,771</u>	<u>\$ 9,094,136</u>	<u>\$ 8,525,481</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, 2005 AND 2004**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,867,191	57 %	\$ 1,768,900	59 %
31-60 Days	588,524	18 %	521,094	17 %
61-90 Days	181,793	6 %	171,885	6 %
91 Days and Over	658,279	19 %	549,748	18 %
Total Accounts Receivable	<u>3,295,787</u>	<u>100 %</u>	<u>3,011,627</u>	<u>100 %</u>
<b>ALLOWANCES</b>				
Contractual -				
Medicare, Medicaid and Other	764,957		696,532	
Doubtful Accounts	355,010		275,656	
Net Accounts Receivable	<u>\$ 2,175,820</u>		<u>\$ 2,039,439</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 38,741</u>		<u>\$ 33,745</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>56</u>		<u>60</u>	

**Analysis of Allowance for Doubtful Accounts**

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 275,656		\$ 261,654	
Add:				
Provision for Doubtful Accounts	424,026	3.1 %	299,441	2.5 %
Recoveries Previously Written Off	261,051	1.9 %	203,256	1.7 %
	<u>685,077</u>		<u>502,697</u>	
Deduct:				
Accounts Written Off	<u>(605,723)</u>	(4.4)%	<u>(488,695)</u>	(4.1)%
Ending Balance	<u>\$ 355,010</u>		<u>\$ 275,656</u>	

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2005 AND 2004**

<b>INVENTORIES</b>	2005	2004
General	\$ 44,112	\$ 55,395
Pharmacy	92,172	80,407
Dietary	7,867	7,825
Clinic Inventory	-	23,336
Other	119,582	101,978
Total Inventories	\$ 263,733	\$ 268,941
<b>PREPAID EXPENSES</b>		
	2005	2004
Prepaid Insurance	\$ 6,612	\$ 42,516
Prepaid Other	41,634	39,052
Total Prepaid Expenses	\$ 48,246	\$ 81,568

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)**

	<u>2005</u>	<u>2004</u>
<b>ACUTE</b>		
Admissions	679	628
Discharges	679	627
Average Length of Stay	2.9	2.9
Patient Days	1,947	1,810
Occupancy Percentage	21.34 %	15.50 %
Beds	25	32
<b>LONG-TERM CARE</b>		
Admissions	18	25
Discharges	19	23
Patient Days	7,214	7,414
Occupancy Percentage	89.59 %	92.08 %
Beds	22	22
<b>SWING BED</b>		
Admissions	134	136
Discharges	134	135
Patient Days	637	674
<b>NURSERY</b>		
Patient Days	217	194

**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**

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, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 assurance 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 operations 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.

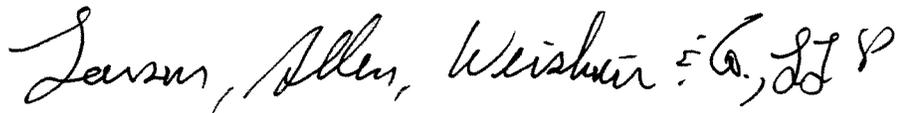
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance**

As part of obtaining reasonable assurance about whether Palo Alto County Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Palo Alto County Health System in a separate letter dated September 29, 2005.

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  
September 29, 2005

**PALO ALTO COUNTY HOSPITAL  
D/B/A  
PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

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

Reportable Conditions

05-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.
- 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.
- Add a step whereby department managers' document their approval over time cards.

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, 2005**

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

05-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, 2005.

05-II-2 Certified Budget

Health System cash basis expenditures during the year ended June 30, 2005 did not exceed budgeted amounts.

05-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.

05-II-4 Travel Expense

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

05-II-5 Business Transactions

One of the Health System's Board of Directors is the retired 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.

05-II-6 Board Minutes

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

05-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.

05-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, 2005**

05-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

