

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2013 AND 2012**

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

|  |           |
|--|-----------|
| <b>BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS</b>   | <b>1</b>  |
| <b>INDEPENDENT AUDITORS' REPORT</b>  | <b>2</b>  |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>  | <b>5</b>  |
| <b>BASIC FINANCIAL STATEMENTS</b>  |           |
| <b>STATEMENTS OF NET POSITION</b>  | <b>10</b> |
| <b>BALANCE SHEETS – FOUNDATION</b>   | <b>12</b> |
| <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>   | <b>13</b> |
| <b>STATEMENTS OF ACTIVITIES – FOUNDATION</b>   | <b>14</b> |
| <b>STATEMENTS OF CASH FLOWS</b>  | <b>15</b> |
| <b>STATEMENTS OF CASH FLOWS – FOUNDATION</b>   | <b>17</b> |
| <b>NOTES TO FINANCIAL STATEMENTS</b>   | <b>18</b> |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>  |           |
| <b>BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND<br/>    CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)</b>   | <b>32</b> |
| <b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY<br/>    REPORTING</b>   | <b>33</b> |
| <b>OTHER SUPPLEMENTARY INFORMATION</b>   |           |
| <b>SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE</b>   | <b>34</b> |
| <b>SCHEDULES OF OTHER OPERATING REVENUES</b>   | <b>36</b> |
| <b>SCHEDULES OF OPERATING EXPENSES</b>   | <b>37</b> |
| <b>SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES, ALLOWANCE FOR<br/>    DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)</b>   | <b>39</b> |
| <b>SCHEDULES OF SUPPLIES AND PREPAID EXPENSES</b>  | <b>40</b> |
| <b>SCHEDULE OF COMPARATIVE STATISTICS (UNAUDITED)</b>  | <b>41</b> |
| <b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON<br/>    COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL<br/>    STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING<br/>    STANDARDS</i></b> | <b>42</b> |
| <b>SCHEDULE OF FINDINGS AND RESPONSES</b>  | <b>44</b> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS**

| <u>Name</u>                           | <u>Title</u>                | <u>Term Expires</u> |
|---------------------------------------|-----------------------------|---------------------|
| <b><u>Board of Trustees</u></b>       |                             |                     |
| Kris Ausborn                          | Chair                       | December 31, 2014   |
| Pat Joyce                             | Treasurer                   | December 31, 2018   |
| Tammy Naig                            | Secretary                   | December 31, 2018   |
| Dawn Schmidt                          | Trustee                     | December 31, 2016   |
| James Hobart                          | Trustee                     | December 31, 2016   |
| Mary Cooper                           | Trustee                     | December 31, 2014   |
| Terry Naig                            | Trustee                     | December 31, 2018   |
| <b><u>Health System Officials</u></b> |                             |                     |
| Desiree Einsweiler                    | Chief Executive Officer     |                     |
| Renay Hauswirth                       | Director of Finance         |                     |
| Coleen Ruddy                          | Director of Patient Billing |                     |
| Joann Higgins                         | Director of Nursing         |                     |

(This page intentionally left blank)

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Palo Alto County Hospital  
dba: Palo Alto County Health System  
Emmetsburg, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Palo Alto County Hospital, dba: Palo Alto County Health System (Health System), and its discretely presented component unit, Palo Alto County Health Care Foundation (Foundation), which comprise the statements of net position and balance sheets as of June 30, 2013 and 2012 and December 31, 2012 and 2011, respectively, and the related combined statements of revenues, expenses, and changes in net position, statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Trustees  
Palo Alto County Hospital  
dba: Palo Alto County Health System

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Palo Alto County Hospital dba: Palo Alto County Health System and its discretely presented component unit as of June 30, 2013 and 2012 and December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

As discussed in Note 1, the Governmental Accounting Standards Board (GASB) Statement Number 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred inflows and outflows of resources. The effect of adopting the new accounting standard did not have a material adverse effect on its financial position for the year ended June 30, 2013. Our opinion is not modified with respect to that matter

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and Budgetary Comparison information on Page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

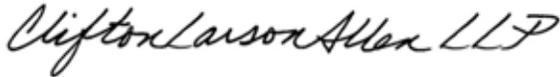
### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Palo Alto County Hospital as a whole. The supplementary information on pages 34 through 41 and the budgetary comparison information on page 32 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Trustees  
Palo Alto County Hospital  
dba: Palo Alto County Health System

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2013, on our consideration of Palo Alto County Hospital dba: Palo Alto County Health System's internal control over financial reporting and on our test 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Palo Alto County Hospital dba: Palo Alto County Health System's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
August 26, 2013

(This page intentionally left blank)

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

This discussion and analysis of the financial performance of Palo Alto County Hospital, dba: Palo Alto County Health System (Health System), provides an overall review of the Health System's financial activities and balances as of and for the years ended June 30, 2013, 2012, and 2011. The intent of this discussion is to provide further information on the Health System's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health System's financial statements, including the notes thereto, to enhance their understanding of the Health System's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health System's finances.

The Health System's financial statements offer short and long-term information about its activities. The statements of net position include all of the Health System's assets and liabilities, as well as the Palo Alto County Health Care Foundation's net position, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health System creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health System's operations over the past year and can be used to determine whether the Health System has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### **Financial Highlights**

The Statements of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Health System and Foundation and the changes in them. The Health System's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health System's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The statement of net position at June 30, 2013, indicates total assets of \$38,341,321, total liabilities of \$12,295,072 and net position of \$26,046,249.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

- The Statements of Revenues, Expenses and Changes in Net Position indicate total net operating revenue of \$22,978,654 an increase of 2.9% over the previous fiscal year, total operating expenses of \$22,793,471 an increase 3.8% resulting in a gain from operations of \$185,183 or .8% compared to 1.7% from the previous year. The Health System had a non-operating gain of \$1,333,281.
- The Health System's current assets exceeded its current liabilities by \$12,242,119 at June 30, 2013, providing a 4.2 current ratio.
- The Health System recorded an excess of revenues over expenses for fiscal year ending June 30, 2013, amounting to \$1,518,464.
- Gross outpatient charges increased 3.7% during fiscal year 2013.
- Total operating expenses increased .04% from the previous fiscal year.
- Gross days in accounts receivable continue to be very favorable at 42 on June 30, 2013.
- Total acute patient days total 1379 a 1.4% increase from prior year
  - Skilled care days 815 (7.9% decrease)
  - Long-term care days 7,676 (1.7% decrease)
  - Surgeries 884 (9.9% decrease)
  - Physical Therapy visits 6,710 (0.8% increase)

### **Organization Highlights**

The organization continued to make many positive changes over this last fiscal year, including:

- Hired a new Family Practice Physician with OB privileges.
- Hired a new part time Pediatrician to serve our pediatric patients
- Started offering a new Life Screen service which is a self-referral screening service
- Began offering epidurals as a method of pain control for our OB patients
- Managed weight loss services were added to our services being offered in the Clinic
- Opened the Sculpt Clinic which focuses services around dermatological care
- Remodeled one patient care room into a bariatric room
- Recruitment of a new physician to start in 2014
- Gift shop was opened and is operated by the Hospital Auxiliary
- Established Transition in Care Teams
- LEAN philosophy, including Hoshin Strategy Deployment was used to develop a new 5 year Strategic Plan
- Hired 2 part time Health Coaches

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Condensed Financial Statements**

**Table 1: Statements of Net Position**

|  | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |                      |
| Current Assets   | \$ 14,820,899        | \$ 11,985,687        | \$ 14,709,294        |
| Noncurrent Cash and Investments                                  | 4,279,709            | 4,241,311            | 4,812,847            |
| Capital Assets, Net  | 18,041,818           | 19,088,377           | 20,334,331           |
| Succeeding Year Property Tax Receivable                          | 1,198,895            | 1,145,423            | 1,165,193            |
| Other Assets   | -                    | 148,544              | 280,008              |
| Total Assets   | <u>\$ 38,341,321</u> | <u>\$ 36,609,342</u> | <u>\$ 41,301,673</u> |
| <b>LIABILITIES</b>   |                      |                      |                      |
| Current Liabilities  | \$ 2,578,780         | \$ 2,383,310         | \$ 3,472,470         |
| Long-Term Debt (Less Current Maturities)                         | 8,485,486            | 8,575,912            | 13,828,705           |
| Deferred Revenue from Succeeding Year<br>Property Tax Receivable | 1,198,895            | 1,145,423            | 1,165,193            |
| Other Liabilities  | 31,911               | 32,525               | 30,367               |
| Total Liabilities  | <u>12,295,072</u>    | <u>12,137,170</u>    | <u>18,496,735</u>    |
| <b>NET POSITION</b>  |                      |                      |                      |
| Invested in Capital Assets Net of Related Debt                   | 9,461,332            | 10,571,009           | 6,495,634            |
| Restricted - Expendable Under Bond Agreement                     | 1,094,686            | 1,092,499            | 2,044,301            |
| Unrestricted   | 15,490,231           | 12,808,664           | 14,265,003           |
| Total Net Position   | <u>26,046,249</u>    | <u>24,472,172</u>    | <u>22,804,938</u>    |
| Total Liabilities and Net Position                               | <u>\$ 38,341,321</u> | <u>\$ 36,609,342</u> | <u>\$ 41,301,673</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Long-Term Debt**

Palo Alto County Health System had \$95,000 and \$8,485,486 in short-term and long-term debt, respectively, for the year ended June 30, 2013, and \$90,000 and \$8,575,912 in short-term and long-term debt, respectively, for the year ended June 30, 2012.

**Table 2: Statement of Revenues, Expenses and Changes in Net Position**

|  | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|----------------------|
| <b>OPERATING REVENUES</b>  |                      |                      |                      |
| Net Patient Service Revenue                                      | \$ 22,065,695        | \$ 21,255,873        | \$ 21,210,779        |
| Apartment Revenue  | 428,347              | 419,591              | 405,195              |
| Other Revenue  | 484,612              | 658,972              | 525,235              |
| Total Operating Revenues   | <u>22,978,654</u>    | <u>22,334,436</u>    | <u>22,141,209</u>    |
| <b>OPERATING EXPENSES</b>  |                      |                      |                      |
| Salaries and Wages   | 8,502,102            | 8,170,519            | 7,953,440            |
| Employee Benefits  | 2,878,572            | 2,799,758            | 2,441,901            |
| Supplies and Other Expenses                                      | 9,002,301            | 8,388,955            | 8,309,946            |
| Depreciation and Amortization                                    | 1,815,097            | 1,863,393            | 1,934,759            |
| Interest   | 595,399              | 741,239              | 739,757              |
| Total Operating Expenses   | <u>22,793,471</u>    | <u>21,963,864</u>    | <u>21,379,803</u>    |
| <b>OPERATING INCOME</b>  | 185,183              | 370,572              | 761,406              |
| Nonoperating Revenues, Net                                       | <u>1,333,281</u>     | <u>1,243,251</u>     | <u>1,209,675</u>     |
| <b>EXCESS OF REVENUES AND GAINS OVER<br/>EXPENSES AND LOSSES</b> | 1,518,464            | 1,613,823            | 1,971,081            |
| Capital Grants and Contributions                                 | <u>55,613</u>        | <u>53,411</u>        | <u>188,118</u>       |
| Increase in Net Position   | 1,574,077            | 1,667,234            | 2,159,199            |
| Net Position, Beginning of Year                                  | <u>24,472,172</u>    | <u>22,804,938</u>    | <u>20,645,739</u>    |
| <b>NET POSITION, END OF YEAR</b>                                 | <u>\$ 26,046,249</u> | <u>\$ 24,472,172</u> | <u>\$ 22,804,938</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Economic and Other Factors and Next Year's Budget**

The Health System's Board and management considered many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Home reimbursement
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Increasing supply costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments

**Summary**

The Health System's Board of Trustees and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 274 employees provides to every person they serve. We would also like to thank each member of the Health System's Medical Staff for their dedication and support provided.

**Contacting the Health System's Finance Department**

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Palo Alto County Health System  
Attn: Renay Hauswirth, CFO  
3201 1st Street  
Emmetsburg, IA 50536

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

| <b>ASSETS</b>   | 2013          | 2012          |
|---|---------------|---------------|
| <b>CURRENT ASSETS</b>   |               |               |
| Cash and Cash Equivalents   | \$ 12,080,771 | \$ 8,985,297  |
| Patient and Resident Receivables, Net of Allowance for<br>Uncollectible Accounts (\$644,700 in 2013, \$734,600 in 2012) | 2,128,677     | 2,109,542     |
| Other Receivables   | 143,422       | 153,480       |
| Estimated Third-Party Payor Settlements   | 52,644        | 357,890       |
| Succeeding Year Property Tax Receivable   | 1,198,895     | 1,145,423     |
| Supplies  | 303,683       | 291,249       |
| Prepaid Expenses  | 111,702       | 88,229        |
| Total Current Assets  | 16,019,794    | 13,131,110    |
| <b>NONCURRENT CASH AND INVESTMENTS</b>  |               |               |
| Internally Designated for Capital Improvements  | 3,185,023     | 3,148,812     |
| Restricted by Bond Agreement  | 1,094,686     | 1,092,499     |
| Total Noncurrent Cash and Investments   | 4,279,709     | 4,241,311     |
| <b>BOND ISSUANCE COSTS, NET</b>   | -             | 148,544       |
| <b>CAPITAL ASSETS, NET</b>  | 18,041,818    | 19,088,377    |
| Total Assets  | \$ 38,341,321 | \$ 36,609,342 |

See accompanying Notes to Financial Statements.

| <b>LIABILITIES AND NET POSITION</b>                        | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| <b>CURRENT LIABILITIES</b>                                 |                      |                      |
| Current Maturities of Long-Term Debt                       | \$ 95,000            | \$ 90,000            |
| Accounts Payable   | 495,456              | 397,430              |
| Payable to Affiliated Organization                         | 350,489              | 245,591              |
| Accrued Expenses:  |                      |                      |
| Salaries and Wages   | 181,945              | 157,461              |
| Paid Time-off  | 634,657              | 619,596              |
| Interest   | 184,143              | 185,831              |
| Payroll Taxes and Benefits                                 | 318,090              | 332,401              |
| Estimated Health Claims                                    | 319,000              | 355,000              |
| Deferred Revenue - Succeeding Year Property Tax Receivable | 1,198,895            | 1,145,423            |
| Total Current Liabilities                                  | <u>3,777,675</u>     | <u>3,528,733</u>     |
| <b>SECURITY DEPOSITS</b>                                   | 31,911               | 32,525               |
| <b>LONG-TERM DEBT</b>                                      | <u>8,485,486</u>     | <u>8,575,912</u>     |
| Total Liabilities  | 12,295,072           | 12,137,170           |
| <b>COMMITMENTS AND CONTINGENCIES</b>                       |                      |                      |
| <b>NET POSITION</b>  |                      |                      |
| Invested in Capital Assets, Net of Related Debt            | 9,461,332            | 10,571,009           |
| Restricted - Expendable Under Bond Agreement               | 1,094,686            | 1,092,499            |
| Unrestricted   | 15,490,231           | 12,808,664           |
| Total Net Position   | <u>26,046,249</u>    | <u>24,472,172</u>    |
| Total Liabilities and Net Position                         | <u>\$ 38,341,321</u> | <u>\$ 36,609,342</u> |

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011**

|  | 2012         | 2011         |
|--|--------------|--------------|
| <b>ASSETS</b>                          |              |              |
| <b>CURRENT ASSETS</b>                  |              |              |
| Cash and Cash Equivalents              | \$ 672,872   | \$ 532,631   |
| Accrued Interest Receivable            | 2,977        | 3,536        |
| Total Current Assets                   | 675,849      | 536,167      |
| <b>NONCURRENT CASH AND INVESTMENTS</b> |              |              |
|  | 1,136,231    | 1,255,099    |
| Total Assets                           | \$ 1,812,080 | \$ 1,791,266 |
| <b>LIABILITIES AND NET ASSETS</b>      |              |              |
| <b>CURRENT LIABILITIES</b>             |              |              |
| Due to Health System                   | \$ 38,175    | \$ -         |
| Total Current Liabilities              | 38,175       | -            |
| <b>NET ASSETS</b>                      |              |              |
| Unrestricted                           | 1,773,905    | 1,791,266    |
| Total Liabilities and Net Assets       | \$ 1,812,080 | \$ 1,791,266 |

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2013 AND 2012**

|   | <u>2013</u>                 | <u>2012</u>                 |
|---|-----------------------------|-----------------------------|
| <b>OPERATING REVENUES</b>   |                             |                             |
| Net Patient and Resident Service Revenue (Net of Provision<br>for Bad Debts of \$591,134 in 2013 and \$690,457 in 2012) | \$ 22,065,695               | \$ 21,255,873               |
| Apartment Revenue   | 428,347                     | 419,591                     |
| Other Operating Revenue   | 484,612                     | 658,972                     |
| Total Operating Revenues  | <u>22,978,654</u>           | <u>22,334,436</u>           |
| <b>EXPENSES</b>   |                             |                             |
| Salaries and Wages  | 8,502,102                   | 8,170,519                   |
| Employee Benefits   | 2,878,572                   | 2,799,758                   |
| Supplies and Other Expenses   | 9,002,301                   | 8,388,955                   |
| Depreciation  | 1,815,097                   | 1,863,393                   |
| Interest and Amortization   | 595,399                     | 741,239                     |
| Total Expenses  | <u>22,793,471</u>           | <u>21,963,864</u>           |
| <b>OPERATING INCOME</b>   | 185,183                     | 370,572                     |
| <b>NONOPERATING REVENUE</b>   |                             |                             |
| Investment Income   | 55,044                      | 65,057                      |
| Tax Apportionments  | 1,170,843                   | 1,164,039                   |
| Noncapital Contributions and Grants   | 32,578                      | 11,905                      |
| Insurance Proceeds  | 73,675                      | -                           |
| Loss on Sale of Capital Assets  | 1,141                       | 2,250                       |
| Nonoperating Gains, Net   | <u>1,333,281</u>            | <u>1,243,251</u>            |
| <b>EXCESS OF REVENUES OVER EXPENSES</b>   | 1,518,464                   | 1,613,823                   |
| <b>CAPITAL GRANTS AND CONTRIBUTIONS</b>   | <u>55,613</u>               | <u>53,411</u>               |
| <b>INCREASE IN NET POSITION</b>   | 1,574,077                   | 1,667,234                   |
| Net Position, Beginning of Year   | <u>24,472,172</u>           | <u>22,804,938</u>           |
| <b>NET POSITION, END OF YEAR</b>  | <u><u>\$ 26,046,249</u></u> | <u><u>\$ 24,472,172</u></u> |

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

|  | <u>2012</u>                | <u>2011</u>                |
|--|----------------------------|----------------------------|
| <b>REVENUES</b>                            |                            |                            |
| Investment Income                          | \$ 33,078                  | \$ 34,676                  |
| Contributions                              | 15,552                     | 22,673                     |
| Total Revenues                             | <u>48,630</u>              | <u>57,349</u>              |
| <b>EXPENSES</b>                            |                            |                            |
| Other Expenses                             | 405                        | 357                        |
| Contributions to Health System             | 65,586                     | 86,885                     |
| Total Expenses                             | <u>65,991</u>              | <u>87,242</u>              |
| <b>DECREASE IN UNRESTRICTED NET ASSETS</b> | (17,361)                   | (29,893)                   |
| Net Assets, Beginning of Year              | <u>1,791,266</u>           | <u>1,821,159</u>           |
| <b>NET ASSETS, END OF YEAR</b>             | <u><u>\$ 1,773,905</u></u> | <u><u>\$ 1,791,266</u></u> |

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

|   | <u>2013</u>          | <u>2012</u>         |
|---|----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                     |
| Cash Received from Patients, Residents and Third-Party Payors   | \$ 22,780,153        | \$ 20,964,882       |
| Cash Paid to Employees  | (11,393,128)         | (11,125,377)        |
| Cash Paid to Suppliers and Contractors                          | (8,835,284)          | (8,530,243)         |
| Other Receipts and Payments, Net                                | 568,345              | 594,244             |
| Net Cash Provided by Operating Activities                       | <u>3,120,086</u>     | <u>1,903,506</u>    |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>         |                      |                     |
| Non-Capital Grants and Contributions                            | 32,578               | 11,905              |
| County Tax Revenue Received                                     | 1,170,843            | 1,164,039           |
| Net Cash Provided by Non-Capital Financing Activities           | <u>1,203,421</u>     | <u>1,175,944</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |                     |
| Principal Payments on Long-Term Debt                            | (90,000)             | (5,575,000)         |
| Purchase of Capital Assets                                      | (767,397)            | (479,884)           |
| Proceeds from the Sale of Capital Assets                        | -                    | 2,250               |
| Interest Payments on Long-term Debt                             | (442,281)            | (487,568)           |
| Net Security Deposits Received (Paid)                           | (614)                | 2,158               |
| Capital Grants and Contributions                                | 55,613               | 53,411              |
| Net Cash Used by Capital and Related Financing Activities       | <u>(1,244,679)</u>   | <u>(6,484,633)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                     |
| Sales and Transfers of Investments                              | (38,398)             | 908,981             |
| Investment Income   | 55,044               | 65,057              |
| Net Cash Provided by Investing Activities                       | <u>16,646</u>        | <u>974,038</u>      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>     | 3,095,474            | (2,431,145)         |
| Cash and Cash Equivalents - Beginning                           | <u>8,985,297</u>     | <u>11,416,442</u>   |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>                       | <u>\$ 12,080,771</u> | <u>\$ 8,985,297</u> |

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

|   | 2013         | 2012         |
|---|--------------|--------------|
| <b>RECONCILIATION OF OPERATING LOSS TO NET<br/>CASH PROVIDED BY OPERATING ACTIVITIES</b>            |              |              |
| Operating Income  | \$ 185,183   | \$ 370,572   |
| Adjustments to Reconcile Adjusted Operating Income<br>to Net Cash Provided by Operating Activities: |              |              |
| Depreciation  | 1,815,097    | 1,863,393    |
| Amortization  | 153,118      | 253,671      |
| Interest Expense Considered Capital and Related Financing Activity                                  | 442,281      | 487,568      |
| Provision for Bad Debts   | 591,134      | 690,457      |
| Insurance Proceeds  | 73,675       | -            |
| (Increase) Decrease in:   |              |              |
| Patient and Resident Receivables  | (610,269)    | (353,149)    |
| Other Receivables   | 10,058       | (64,728)     |
| Supplies  | (12,434)     | 11,162       |
| Prepaid Expenses  | (23,473)     | 29,165       |
| Increase (Decrease) in:   |              |              |
| Accounts Payable - Trade and Affiliated   | 202,924      | (181,615)    |
| Accrued Expenses  | (12,454)     | (155,100)    |
| Estimated Third-Party Payor Settlements   | 305,246      | (1,047,890)  |
| Net Cash Provided by Operating Activities   | \$ 3,120,086 | \$ 1,903,506 |
| <b>NONCASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                              |              |              |
| Capital Assets included in Accounts Payable   | \$ 231,505   | \$ 157,355   |

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

|   | 2012        | 2011        |
|---|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |             |             |
| Decrease In Unrestricted Net Assets   | \$ (17,361) | \$ (29,893) |
| Adjustments to Reconcile Excess of Operating Revenues over Operating Expenses to Net Cash Provided by Operating Activities: |             |             |
| Amortization of Premiums on Investments   | -           | 1,219       |
| Changes in Assets and Liabilities:  |             |             |
| Accrued Interest Receivable   | 559         | 3,298       |
| Property Tax Payable  | -           | (965)       |
| Due to Facility   | 38,175      | -           |
| Commitment to Health System   | -           | (245,000)   |
| Net Cash Provided (Used) by Operating Activities  | 21,373      | (271,341)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |             |             |
| Purchase of Investments   | -           | (500,000)   |
| Sale of Investments   | 125,000     | 1,133,210   |
| Interest Capitalized to Certificates of Deposit   | (6,132)     | (13,007)    |
| Net Cash Provided by Investing Activities   | 118,868     | 620,203     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | 140,241     | 348,862     |
| Cash and Cash Equivalents - Beginning   | 532,631     | 183,769     |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>   | \$ 672,872  | \$ 532,631  |

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Palo Alto County Hospital, dba: Palo Alto County Health System (Health System), consists of a 25-bed acute care hospital and a 22-bed skilled nursing/long-term care facility, located in Emmetsburg, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health System provides health care services in accordance with a Master Affiliation Agreement discussed further in Note 9. Services are provided to residents of Palo Alto County and surrounding counties in Iowa.

**Tax Exempt Status**

The Health System is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Health System is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Health System believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Health System would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Reporting Entity**

For financial reporting purposes, the Health System has included all funds, organizations, agencies, boards, commissions, and authorities. The Health System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health System are such that exclusion would cause the Health System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health System.

Palo Alto County Health Care Foundation (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.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The statements of net position display the Health System's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health System.

*Expendable* – Expendable net position result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Health System's policy to use restricted net position first.

**Measurement Focus and Basis of Accounting**

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

The Health System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

**Patient and Resident Receivables**

Patient and resident receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

**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. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees 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 Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**Supplies**

Supplies are stated at lower of average cost or market.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Revenue**

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

**Noncurrent Cash and Investments**

Noncurrent cash and investments include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and assets which are restricted by bond agreements. Noncurrent cash and investments that are available for obligations classified as current liabilities are reported in current assets.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health System for its stated purposes. Resources set aside for board designated purposes are not considered to be restricted. Contributions are reported in nonoperating revenue. Grants restricted for specific operating purposes are reported as other operating revenues.

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for the Health System's operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

|                               |            |
|-------------------------------|------------|
| Land Improvements             | 8-20 Years |
| Buildings and Fixed Equipment | 5-56 Years |
| Major Movable Equipment       | 3-25 Years |

**Unamortized Bond Issuance Costs and Expense**

Bond issuance costs of \$191,736 from the Series 2006 Hospital Revenue Bonds are being amortized over the life of the bonds using the straight-line method. During the year ended June 30, 2013, the Health System implemented the Governmental Accounting Standards Board (GASB) Statement *Items Previously Reported as Assets and Liabilities*. As a result the Health System expensed the remaining unamortized debt issue costs from the 2006 Hospital Revenue Bonds. Total debt issue cost expensed during the year ended June 30, 2013 were \$148,544 related to the 2006 Hospital Revenue bonds. Amortization expense of \$131,464 was recognized during the year ended June 30, 2012.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

Health System employees accumulate a limited amount of earned but unused paid time-off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time-off payouts is recorded as a current liability on the statement of net position based on rates that are in effect at June 30, 2013 and 2012.

**Operating Revenues and Expenses**

The Health System's statements of revenues, expenses, and changes in net position distinguish 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, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**Net Patient and Resident Service Revenue**

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

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

**Investment Income**

Interest on cash and deposits is included in nonoperating revenues and expenses.

**Contributions and Grants**

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**Asset Retirement Obligation**

The Health System would recognize an asset retirement obligation in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset, including leased premises, resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost would be capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Charity Care**

To fulfill its mission of community service, the Health System provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Health System does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

**Electronic Health Record Incentive Payments**

As discussed in Note 4, the Health System received funds under the Electronic Health Records (EHR) Incentive Program. The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Hospital will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

**Advertising Costs**

The Health System expenses advertising costs as incurred.

**County Tax Revenue**

Taxes are included in nonoperating revenues 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.

**Subsequent Events**

The Health System has evaluated subsequent events through August 19, 2013, the date which the financial statements were available to be issued.

**NOTE 2 CHARITY CARE AND COMMUNITY BENEFITS**

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$449,010 and \$263,950 for the years ended June 30, 2013 and 2012, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2013 and 2012 were \$284,000 and \$172,000, respectively.

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

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

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE**

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare**

The Health System is licensed as a Critical Access Hospital (CAH). The Health System is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health System and are subject to audits thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2011.

**Medicaid**

**Hospital**

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2010.

**Nursing Home**

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

**Other Payors**

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

Revenue from the Medicare and Medicaid programs accounted for approximately 31% and 6%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2013, and 47% and 11%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2012. The 2013 and 2012 net patient and resident service revenue increased approximately, \$25,000 and \$51,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments in excess of amounts previously estimated, and years that are no longer subject to audits, reviews, and investigations.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health System may incur a liability for a claims overpayment at a future date. The Health System is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health System's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health System and CMS.

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2013 and 2012 is as follows:

|   | <u>2013</u>          | <u>2012</u>          |
|---|----------------------|----------------------|
| Total Patient and Resident Service Revenue  | \$ 33,737,758        | \$ 32,683,061        |
| Revenue Adjustments:                        |                      |                      |
| Medicare                                    | (5,332,638)          | (4,991,017)          |
| Medicaid                                    | (1,006,543)          | (892,119)            |
| Provision for Bad Debt                      | (591,134)            | (690,457)            |
| Commercial and Other                        | <u>(4,741,748)</u>   | <u>(4,853,595)</u>   |
| Total Contractual Adjustments and Bad Debts | <u>(11,672,063)</u>  | <u>(11,427,188)</u>  |
| Net Patient and Resident Service Revenue    | <u>\$ 22,065,695</u> | <u>\$ 21,255,873</u> |

**NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Organization continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by ¼, ½, and ¾.

The Health System demonstrated meaningful use to the 90-day period ended September 1, 2011, and received the first tentative incentive payment of \$28,044 in March 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net position. The final amount of this payment will be determined based on information from the Health Centers' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 5 DEPOSITS AND INVESTMENTS**

The Health System's deposits in banks at June 30, 2013 and 2012 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.

At June 30, 2013 and 2012, the Health System's carrying amounts of deposits and investments are as follows:

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| Checking and Savings Accounts                     | \$ 12,080,771        | \$ 8,985,297         |
| Certificates of Deposit                           | 3,185,023            | 3,148,812            |
| Money Market Accounts                             | 1,094,686            | 1,092,499            |
| Total Deposits                                    | <u>\$ 16,360,480</u> | <u>\$ 13,226,608</u> |
| Included in the Following Balance Sheet Captions: |                      |                      |
| Cash and Cash Equivalents                         | \$ 12,080,771        | \$ 8,985,297         |
| Assets Limited as to Use or Restricted            | 4,279,709            | 4,241,311            |
|   | <u>\$ 16,360,480</u> | <u>\$ 13,226,608</u> |

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Health System's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health System. Maturities are consistent with this policy.

At December 31, 2012 and 2011, the Foundation's carrying amounts of deposits and investments are as follows:

|                           | 2012                | 2011                |
|---------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 672,872          | \$ 532,631          |
| Certificates of Deposit   | 1,136,231           | 1,255,099           |
| Total Deposits            | <u>\$ 1,809,103</u> | <u>\$ 1,787,730</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 6 CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows:

|   | July 1,<br>2012      | Additions             | (Retirements)      | Transfers   | June 30,<br>2013     |
|---|----------------------|-----------------------|--------------------|-------------|----------------------|
| <b>Capital Assets Not Being Depreciated</b> |                      |                       |                    |             |                      |
| Land  | \$ 140,365           | \$ -                  | \$ -               | \$ -        | \$ 140,365           |
| Construction in Progress                    | 6,922                | 59,147                | -                  | (6,922)     | 59,147               |
| Total Capital Assets Not Being Depreciated  | 147,287              | 59,147                | -                  | (6,922)     | 199,512              |
| <b>Capital Assets Being Depreciated</b>     |                      |                       |                    |             |                      |
| Land Improvements                           | 301,978              | 60,018                | (13,290)           | -           | 348,706              |
| Buildings                                   | 23,358,574           | 166,991               | (4,116)            | -           | 23,521,449           |
| Fixed Equipment                             | 2,060,888            | -                     | (4,423)            | -           | 2,056,465            |
| Major Movable Equipment                     | 7,551,874            | 482,382               | (217,407)          | 6,922       | 7,823,771            |
| Total Capital Assets Being Depreciated      | 33,273,314           | 709,391               | (239,236)          | 6,922       | 33,750,391           |
| <b>Accumulated Depreciation</b>             |                      |                       |                    |             |                      |
| Land Improvements                           | 217,117              | 17,997                | (13,290)           | -           | 221,824              |
| Buildings                                   | 7,327,067            | 1,033,762             | (4,115)            | -           | 8,356,714            |
| Fixed Equipment                             | 1,562,335            | 76,496                | (4,424)            | -           | 1,634,407            |
| Major Movable Equipment                     | 5,225,705            | 686,842               | (217,407)          | -           | 5,695,140            |
| Total Accumulated Depreciated               | 14,332,224           | 1,815,097             | (239,236)          | -           | 15,908,085           |
| Total Capital Assets Being Depreciated, Net | 18,941,090           | (1,105,706)           | -                  | 6,922       | 17,842,306           |
| Total Capital Assets, Net                   | <u>\$ 19,088,377</u> | <u>\$ (1,046,559)</u> | <u>\$ -</u>        | <u>\$ -</u> | <u>\$ 18,041,818</u> |
|   | July 1,<br>2011      | Additions             | (Retirements)      | Transfers   | June 30,<br>2012     |
| <b>Capital Assets Not Being Depreciated</b> |                      |                       |                    |             |                      |
| Land  | \$ 140,365           | \$ -                  | \$ -               | \$ -        | \$ 140,365           |
| Construction in Progress                    | -                    | 6,922                 | -                  | -           | 6,922                |
| Total Capital Assets Not Being Depreciated  | 140,365              | 6,922                 | -                  | -           | 147,287              |
| <b>Capital Assets Being Depreciated</b>     |                      |                       |                    |             |                      |
| Land Improvements                           | 301,978              | -                     | -                  | -           | 301,978              |
| Buildings                                   | 23,225,227           | 133,347               | -                  | -           | 23,358,574           |
| Fixed Equipment                             | 2,060,888            | -                     | -                  | -           | 2,060,888            |
| Major Movable Equipment                     | 7,210,101            | 503,872               | (162,099)          | -           | 7,551,874            |
| Total Capital Assets Being Depreciated      | 32,798,194           | 637,219               | (162,099)          | -           | 33,273,314           |
| <b>Accumulated Depreciation</b>             |                      |                       |                    |             |                      |
| Land Improvements                           | 202,455              | 14,662                | -                  | -           | 217,117              |
| Buildings                                   | 6,314,516            | 1,012,551             | -                  | -           | 7,327,067            |
| Fixed Equipment                             | 1,482,571            | 79,764                | -                  | -           | 1,562,335            |
| Major Movable Equipment                     | 4,604,686            | 756,416               | (135,397)          | -           | 5,225,705            |
| Total Accumulated Depreciated               | 12,604,228           | 1,863,393             | (135,397)          | -           | 14,332,224           |
| Total Capital Assets Being Depreciated, Net | 20,193,966           | (1,226,174)           | (26,702)           | -           | 18,941,090           |
| Total Capital Assets, Net                   | <u>\$ 20,334,331</u> | <u>\$ (1,219,252)</u> | <u>\$ (26,702)</u> | <u>\$ -</u> | <u>\$ 19,088,377</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 7 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2013 and 2012 is as follows:

|                                     | Balance<br>July 1,<br>2012 | Additions   | (Payments) &<br>(Amortization) | Balance<br>June 30,<br>2013 | Amounts<br>Due Within<br>One Year |
|-------------------------------------|----------------------------|-------------|--------------------------------|-----------------------------|-----------------------------------|
| Hospital Revenue Bonds, Series 2006 | \$ 8,750,000               | \$ -        | \$ (90,000)                    | \$ 8,660,000                | \$ 95,000                         |
|                                     | 8,750,000                  | -           | (90,000)                       | 8,660,000                   | 95,000                            |
| Bond OID Less Premium 2006          | (84,088)                   | -           | 4,574                          | (79,514)                    | -                                 |
| Total Long-Term Debt                | <u>\$ 8,665,912</u>        | <u>\$ -</u> | <u>\$ (85,426)</u>             | 8,580,486                   | <u>\$ 95,000</u>                  |
| Less Current Maturities             |                            |             |                                | (95,000)                    |                                   |
|                                     |                            |             |                                | <u>\$ 8,485,486</u>         |                                   |

|                                     | Balance<br>July 1,<br>2011 | Additions   | (Payments) &<br>(Amortization) | Balance<br>June 30,<br>2012 | Amounts<br>Due Within<br>One Year |
|-------------------------------------|----------------------------|-------------|--------------------------------|-----------------------------|-----------------------------------|
| Hospital Revenue Bonds, Series 2003 | \$ 5,485,000               | \$ -        | \$ (5,485,000)                 | \$ -                        | \$ -                              |
| Hospital Revenue Bonds, Series 2006 | 8,840,000                  | -           | (90,000)                       | 8,750,000                   | 90,000                            |
|                                     | 14,325,000                 | -           | (5,575,000)                    | 8,750,000                   | 90,000                            |
| Bond Discount                       | (15,956)                   | -           | 15,956                         | -                           | -                                 |
| Deferred Loss on Bond Refinancing   | (101,636)                  | -           | 101,636                        | -                           | -                                 |
| Bond OID Less Premium 2006          | (88,703)                   | -           | 4,615                          | (84,088)                    | -                                 |
| Total Long-Term Debt                | <u>\$ 14,118,705</u>       | <u>\$ -</u> | <u>\$ (5,452,793)</u>          | 8,665,912                   | <u>\$ 90,000</u>                  |
| Less Current Maturates              |                            |             |                                | (90,000)                    |                                   |
|                                     |                            |             |                                | <u>\$ 8,575,912</u>         |                                   |

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

| Years Ending June 30, | Principal           | Long-Term Debt<br>Interest | Total                |
|-----------------------|---------------------|----------------------------|----------------------|
| 2014                  | \$ 95,000           | \$ 439,806                 | \$ 534,806           |
| 2015                  | 100,000             | 435,356                    | 535,356              |
| 2016                  | 100,000             | 430,694                    | 530,694              |
| 2017                  | 105,000             | 425,850                    | 530,850              |
| 2018                  | 115,000             | 420,625                    | 535,625              |
| 2018-2022             | 655,000             | 2,010,209                  | 2,665,209            |
| 2023-2027             | 850,000             | 1,815,925                  | 2,665,925            |
| 2028-2032             | 3,105,000           | 1,365,684                  | 4,470,684            |
| 2033-2037             | 3,535,000           | 373,483                    | 3,908,483            |
|                       | <u>\$ 8,660,000</u> | <u>\$ 7,717,632</u>        | <u>\$ 16,377,632</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

The Hospital Revenue Bonds, Series 2006 were issued in the amount of \$9,000,000 on August 1, 2006. Payments of interest at rates from 4.125% to 5.250% are payable semi-annually on February 1 and August 1, and principal payments are due annually on August 1 through 2036. The bonds are collateralized by the patient and resident revenues of the Health System.

The Health System is subject to certain covenants under the bond agreement regarding the funding of debt service reserve and sinking fund accounts. The Health System was in compliance with these covenants for the years ended June 30, 2013 and 2012.

The bond resolution of the Series 2006 bonds requires the establishment of the following Bond Funds:

**Sinking Fund** – into which the Health System is required to deposit a monthly sum equal to at least one-sixth of the interest coming due on the bonds on the next interest payment date. In addition, the Health System is required to deposit a monthly sum equal to at least one-twelfth of the principal coming due on the bonds on the next principal date.

**Debt Service Reserve Fund** – into which the Health System was required to deposit an amount equal to the sum of \$821,323, to fund final debt payment on August 1, 2036.

**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 5.78% of their annual covered salary, and the Health System is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Contribution requirements are established by state statute. The Health System's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$730,700, \$659,042, and \$563,323, respectively, equal to the required contributions for each year.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9 RELATED ORGANIZATIONS**

**Master Affiliation Agreement**

The Health System has a Master Affiliation Agreement with Mercy Medical Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Palo Alto County and surrounding counties in central Iowa. As a part of this Master Affiliation Agreement, the Health System entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Health System. Amounts paid to MMC-NI for the provision of these services amounted to \$2,708,923 and \$2,405,811 for the years ended June 30, 2013 and 2012, respectively.

**Management Services Agreement**

The Health System has a contractual arrangement with MMC-NI under which MMC-NI 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, 2013 and 2012 were \$418,226 and \$708,811, respectively.

**Due to Affiliated Organization**

As of June 30, 2013 and 2012, the Health System's records reflect an amount due to MMC-NI of \$350,489 and \$245,591, respectively, for the various services and distributions related to these agreements.

**NOTE 10 CONTINGENCIES**

**Malpractice Insurance**

The Health System has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. The Health System also has directors' and officers' insurance coverage to provide protection for losses on a claims-made basis subject to a limit of \$2 million per claim and an aggregate limit of \$2 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**Excess Liability Umbrella Insurance**

The Health System also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$5 million per occurrence and an annual aggregate limit of \$5 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 10 CONTINGENCIES (CONTINUED)**

**Self-Funded Employee Health Insurance Plan**

The Health System has a self-funded employee health insurance plan covering substantially all employees. The plan is responsible to pay all administration expenses and benefits up to the reinsurance limits. A liability of \$319,000 and \$355,000 has been established to record the incurred but not reported claims outstanding at June 30, 2013 and 2012.

**Health Care Legislation and Regulation**

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

**NOTE 11 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. The Health System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Health System is subject to litigation in the ordinary course of business. The Health System's management intends to vigorously defend any claims and does not consider there to be a risk of significant loss.

**NOTE 12 CONCENTRATION OF CREDIT RISK**

The Health System grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2013 and 2012 was as follows:

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Medicare   | 35%         | 34%         |
| Medicaid   | 8%          | 8%          |
| Blue Cross                                       | 19%         | 17%         |
| Other Third-Party Payors, Patients and Residents | 38%         | 41%         |
|  | <u>100%</u> | <u>100%</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

(This page intentionally left blank)

**PALO ALTO COUNTY HOSPITAL  
 DBA: PALO ALTO COUNTY HEALTH SYSTEM  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2013**

|  | General<br>Fund             | Accrual<br>Adjustments        | Cash<br>Basis               | Original<br>Budget          | Final to<br>Actual<br>Cash Basis<br>Variance |
|--|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--|
| Estimated Amount to<br>be Raised by Taxation | \$ 1,170,843                | \$ -                          | \$ 1,170,843                | \$ 1,145,423                | \$ 25,420                                    |
| Estimated Other<br>Revenues/Receipts         | 23,196,705                  | 256,016                       | 23,452,721                  | 25,131,081                  | (1,678,360)                                  |
|  | <u>24,367,548</u>           | <u>256,016</u>                | <u>24,623,564</u>           | <u>26,276,504</u>           | <u>(1,652,940)</u>                           |
| Expenses/Disbursements                       | <u>22,793,471</u>           | <u>(1,265,381)</u>            | <u>21,528,090</u>           | <u>24,395,840</u>           | <u>2,867,750</u>                             |
| Net  | 1,574,077                   | 1,521,397                     | 3,095,474                   | 1,880,664                   | 1,214,810                                    |
| Balance Beginning of Year                    | <u>24,472,172</u>           | <u>(15,486,875)</u>           | <u>8,985,297</u>            | <u>13,496,523</u>           | <u>(4,511,226)</u>                           |
| Balance End of Year                          | <u><u>\$ 26,046,249</u></u> | <u><u>\$ (13,965,478)</u></u> | <u><u>\$ 12,080,771</u></u> | <u><u>\$ 15,377,187</u></u> | <u><u>\$ (3,296,416)</u></u>                 |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2013**

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health 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. The Health System did not amend its original budget during the year ended June 30, 2013.

**OTHER SUPPLEMENTARY INFORMATION**

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2013 AND 2012**

|  | Total                |                      |
|--|----------------------|----------------------|
|  | 2013                 | 2012                 |
| <b>PATIENT AND RESIDENT SERVICE REVENUE</b>                              |                      |                      |
| Medical and Surgical   | \$ 1,306,868         | \$ 1,262,072         |
| Nursery  | 150,375              | 166,831              |
| Long-Term Care   | 1,213,631            | 1,201,828            |
| Total Patient and Resident Service Revenue                               | <u>2,670,874</u>     | <u>2,630,731</u>     |
| <b>OTHER PROFESSIONAL SERVICE REVENUE</b>                                |                      |                      |
| Operating Room   | 2,793,659            | 2,984,871            |
| Emergency Room   | 2,912,089            | 2,648,604            |
| Labor and Delivery Room  | 86,712               | 95,336               |
| Obstetric Services   | 317,147              | 379,461              |
| Anesthesiology   | 805,271              | 724,756              |
| Radiology and Ultrasound   | 5,274,648            | 5,027,574            |
| Laboratory   | 3,884,150            | 3,560,267            |
| Respiratory Therapy  | 1,073,104            | 1,110,535            |
| Physical Therapy   | 1,043,175            | 992,505              |
| Occupational Therapy   | 139,897              | 148,808              |
| Speech Therapy   | 20,927               | 22,220               |
| Electrocardiology  | 615,069              | 579,076              |
| Medical and Surgical Supplies  | 493,544              | 552,566              |
| Pharmacy   | 3,314,525            | 3,561,136            |
| Ambulance  | 1,057,453            | 890,799              |
| Home Health  | 601,952              | 602,985              |
| Hospice  | 893,028              | 762,726              |
| Cardiac Rehabilitation   | 103,980              | 70,827               |
| Pulmonary Rehabilitation   | 46,115               | 39,289               |
| Graettinger Clinic   | 486,503              | 463,773              |
| Emmetsburg Clinic  | 4,652,926            | 4,212,454            |
| West Bend Clinic   | 900,020              | 885,712              |
| Total Other Professional Service Revenue                                 | <u>31,515,894</u>    | <u>30,316,280</u>    |
| Gross Patient and Resident Charges                                       | 34,186,768           | 32,947,011           |
| Charity Care   | <u>(449,010)</u>     | <u>(263,950)</u>     |
| Total Patient Service Revenues   | 33,737,758           | 32,683,061           |
| <b>CONTRACTUAL ADJUSTMENTS</b>   |                      |                      |
| Medicare   | (5,332,638)          | (4,991,017)          |
| Medicaid   | (1,006,543)          | (892,119)            |
| Commercial and Other   | (4,741,748)          | (4,853,595)          |
| Total Contractual Adjustments  | <u>(11,080,929)</u>  | <u>(10,736,731)</u>  |
| Patient and Resident Service Revenues,<br>Net of Contractual Adjustments | 22,656,829           | 21,946,330           |
| Provision for Bad Debts  | <u>(591,134)</u>     | <u>(690,457)</u>     |
| Net Patient and Resident Service Revenues                                | <u>\$ 22,065,695</u> | <u>\$ 21,255,873</u> |

| Inpatient           |                     | Outpatient           |                      |
|---------------------|---------------------|----------------------|----------------------|
| 2013                | 2012                | 2013                 | 2012                 |
| \$ 1,306,868        | \$ 1,262,072        | \$ -                 | \$ -                 |
| 150,375             | 166,831             | -                    | -                    |
| 1,213,631           | 1,201,828           | -                    | -                    |
| <u>2,670,874</u>    | <u>2,630,731</u>    | <u>-</u>             | <u>-</u>             |
| 257,975             | 338,004             | 2,535,684            | 2,646,867            |
| 190,637             | 142,225             | 2,721,452            | 2,506,379            |
| 86,712              | 95,336              | -                    | -                    |
| 239,343             | 290,934             | 77,804               | 88,527               |
| 60,008              | 53,953              | 745,263              | 670,803              |
| 255,002             | 216,499             | 5,019,646            | 4,811,075            |
| 395,914             | 380,817             | 3,488,236            | 3,179,450            |
| 610,841             | 654,642             | 462,263              | 455,893              |
| 143,597             | 165,379             | 899,578              | 827,126              |
| 51,017              | 59,121              | 88,880               | 89,687               |
| 7,305               | 3,026               | 13,622               | 19,194               |
| 42,874              | 43,513              | 572,195              | 535,563              |
| 61,523              | 75,746              | 432,021              | 476,820              |
| 834,529             | 829,670             | 2,479,996            | 2,731,466            |
| -                   | -                   | 1,057,453            | 890,799              |
| -                   | -                   | 601,952              | 602,985              |
| 46,821              | 20,896              | 846,207              | 741,830              |
| -                   | -                   | 103,980              | 70,827               |
| -                   | -                   | 46,115               | 39,289               |
| -                   | -                   | 486,503              | 463,773              |
| -                   | -                   | 4,652,926            | 4,212,454            |
| -                   | -                   | 900,020              | 885,712              |
| <u>3,284,098</u>    | <u>3,369,761</u>    | <u>28,231,796</u>    | <u>26,946,519</u>    |
| <u>\$ 5,954,972</u> | <u>\$ 6,000,492</u> | <u>\$ 28,231,796</u> | <u>\$ 26,946,519</u> |

(This page intentionally left blank)

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2013 AND 2012**

| <b>OTHER OPERATING REVENUES</b> | <u>2013</u>       | <u>2012</u>       |
|---------------------------------|-------------------|-------------------|
| Home Health Support             | \$ 217,375        | \$ 301,982        |
| Business Health                 | 125,990           | 121,492           |
| Meals Sold                      | 67,953            | 65,289            |
| Lifeline                        | 33,159            | 46,734            |
| Specialty Clinic                | 28,876            | 33,060            |
| Willow Ridge                    | 4,100             | 4,120             |
| Miscellaneous                   | 7,159             | 86,295            |
| Total Other Operating Revenues  | <u>\$ 484,612</u> | <u>\$ 658,972</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2013 AND 2012**

|                                 | Total                |                      |
|---------------------------------|----------------------|----------------------|
|                                 | 2013                 | 2012                 |
| Medical and Surgical            | \$ 924,881           | \$ 869,429           |
| Nursery                         | 39,971               | 45,708               |
| Long-Term Care                  | 722,257              | 717,871              |
| Operating Room                  | 575,706              | 655,755              |
| Emergency Room                  | 1,109,277            | 1,033,512            |
| Labor and Delivery Room         | 22,640               | 13,518               |
| Obstetric Services              | 204,810              | 236,473              |
| Anesthesiology                  | 319,736              | 277,402              |
| Radiology and Ultrasound        | 902,629              | 803,309              |
| Laboratory                      | 835,820              | 791,503              |
| Respiratory Therapy             | 85,938               | 86,492               |
| Physical Therapy                | 322,854              | 268,761              |
| Occupational Therapy            | 45,671               | 49,220               |
| Speech Pathology                | 13,427               | 18,641               |
| Electrocardiology               | 87,145               | 90,782               |
| Pharmacy                        | 749,731              | 785,190              |
| Ambulance                       | 337,232              | 328,636              |
| Home Health                     | 578,833              | 576,451              |
| Hospice                         | 156,065              | 146,096              |
| Cardiac Rehab                   | 94,897               | 93,419               |
| Pulmonary Rehab                 | 20,561               | 22,456               |
| Specialty Clinic                | 9,847                | 9,797                |
| Graettinger Clinic              | 369,124              | 334,302              |
| Emmetsburg Clinic               | 3,384,057            | 2,901,625            |
| West Bend Clinic                | 570,074              | 515,308              |
| Apartments                      | 118,861              | 112,913              |
| Business Health                 | 121,536              | 126,651              |
| Diabetic Education              | 23,421               | 23,945               |
| Administrative and General      | 2,533,365            | 2,449,754            |
| Operation of Plant              | 644,821              | 614,542              |
| Housekeeping, Laundry and Linen | 258,791              | 253,865              |
| Dietary                         | 528,669              | 514,647              |
| Nursing Administration          | 188,312              | 186,841              |
| Medical Records                 | 276,324              | 270,976              |
| Blood                           | 40,984               | 44,745               |
| Central Supply                  | 286,136              | 288,939              |
| Employee Benefits               | 2,878,572            | 2,799,758            |
| Depreciation Expense            | 1,815,097            | 1,863,393            |
| Amortization Expense            | 153,118              | 253,671              |
| Interest Expense                | 442,281              | 487,568              |
| <b>TOTAL</b>                    | <b>\$ 22,793,471</b> | <b>\$ 21,963,864</b> |

| Salaries and Wages  |                     | Other                |                      |
|---------------------|---------------------|----------------------|----------------------|
| 2013                | 2012                | 2013                 | 2012                 |
| \$ 829,949          | \$ 784,394          | \$ 94,932            | \$ 85,035            |
| 31,149              | 40,004              | 8,822                | 5,704                |
| 654,212             | 640,178             | 68,045               | 77,693               |
| 439,152             | 478,178             | 136,554              | 177,577              |
| 343,957             | 293,511             | 765,320              | 740,001              |
| 5,093               | 1,995               | 17,547               | 11,523               |
| 193,210             | 224,030             | 11,600               | 12,443               |
| -                   | -                   | 319,736              | 277,402              |
| 378,922             | 318,404             | 523,707              | 484,905              |
| 430,941             | 409,561             | 404,879              | 381,942              |
| 36,953              | 33,562              | 48,985               | 52,930               |
| 280,538             | 239,347             | 42,316               | 29,414               |
| 44,914              | 46,268              | 757                  | 2,952                |
| -                   | -                   | 13,427               | 18,641               |
| 4,023               | 6,356               | 83,122               | 84,426               |
| -                   | -                   | 749,731              | 785,190              |
| 238,643             | 250,063             | 98,589               | 78,573               |
| 483,783             | 480,773             | 95,050               | 95,678               |
| 97,788              | 95,335              | 58,277               | 50,761               |
| 89,019              | 83,861              | 5,878                | 9,558                |
| 19,842              | 21,004              | 719                  | 1,452                |
| 8,204               | 8,700               | 1,643                | 1,097                |
| 222,446             | 224,377             | 146,678              | 109,925              |
| 1,040,623           | 980,331             | 2,343,434            | 1,921,294            |
| 303,719             | 296,261             | 266,355              | 219,047              |
| 55,610              | 54,471              | 63,251               | 58,442               |
| 81,610              | 91,239              | 39,926               | 35,412               |
| 22,678              | 19,479              | 743                  | 4,466                |
| 897,568             | 868,008             | 1,635,797            | 1,581,746            |
| 255,927             | 211,041             | 388,894              | 403,501              |
| 224,111             | 217,995             | 34,680               | 35,870               |
| 348,815             | 326,072             | 179,854              | 188,575              |
| 179,462             | 177,045             | 8,850                | 9,796                |
| 236,194             | 230,389             | 40,130               | 40,587               |
| 2,930               | 939                 | 38,054               | 43,806               |
| 20,117              | 17,348              | 266,019              | 271,591              |
| -                   | -                   | 2,878,572            | 2,799,758            |
| -                   | -                   | 1,815,097            | 1,863,393            |
| -                   | -                   | 153,118              | 253,671              |
| -                   | -                   | 442,281              | 487,568              |
| <u>\$ 8,502,102</u> | <u>\$ 8,170,519</u> | <u>\$ 14,291,369</u> | <u>\$ 13,793,345</u> |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,  
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

**Analysis of Aging**

| Age of Accounts<br>(by Date of Discharge) | June 30, 2013       |          | June 30, 2012       |          |
|---|---------------------|----------|---------------------|----------|
|   | Amount              | Percent  | Amount              | Percent  |
| 30 Days or Less                           | \$ 2,383,227        | 60.99 %  | \$ 2,492,547        | 60.09 %  |
| 31-60 Days                                | 572,496             | 14.65 %  | 597,412             | 14.40 %  |
| 61-90 Days                                | 305,950             | 7.83 %   | 264,586             | 6.38 %   |
| 91 Days and Over                          | 645,658             | 16.53 %  | 793,465             | 19.13 %  |
| Total Accounts Receivable                 | 3,907,331           | 100.00 % | 4,148,010           | 100.00 % |
| Less: Allowances                          |                     |          |                     |          |
| Allowance for Contractual Adjustments     | 1,133,900           |          | 1,303,900           |          |
| Allowance for Doubtful Accounts           | 644,754             |          | 734,568             |          |
| Net Accounts Receivable                   | <u>\$ 2,128,677</u> |          | <u>\$ 2,109,542</u> |          |

**Analysis of Allowance for Doubtful Accounts for the Years Ended June 30, 2013 and 2012:**

|                                   | 2013               | 2012              |
|-----------------------------------|--------------------|-------------------|
| Beginning Balance                 | \$ 734,568         | \$ 715,917        |
| Add:                              |                    |                   |
| Provision for Doubtful Accounts   | 591,134            | 690,457           |
| Recoveries Previously Written-Off | 572,018            | 261,051           |
|                                   | <u>1,163,152</u>   | <u>951,508</u>    |
| Less:                             |                    |                   |
| Accounts Written-Off              | <u>(1,252,966)</u> | <u>(932,857)</u>  |
| Ending Balance                    | <u>\$ 644,754</u>  | <u>\$ 734,568</u> |

**Collection Statistics**

|   | 2013         | 2012         |
|---|--------------|--------------|
| Patient and Resident Receivables, Net                 | \$ 2,128,677 | \$ 2,109,542 |
| Number of Days Revenue Outstanding                    | 35           | 35           |
| Uncollectable Accounts (1)                            | 1,079,453    | 983,408      |
| Percentage of Uncollectable Accounts to Total Charges | 3.2%         | 3.0%         |

(1) Includes provision for bad debts, charity care, and collection fees.

**PALO ALTO COUNTY HOSPITAL  
 DBA: PALO ALTO COUNTY HEALTH SYSTEM  
 SCHEDULES OF SUPPLIES AND PREPAID EXPENSES  
 JUNE 30, 2013 AND 2012**

| <b>Supplies:</b>             | <u>2013</u>       | <u>2012</u>       |
|------------------------------|-------------------|-------------------|
| Pharmacy                     | \$ 129,679        | \$ 117,765        |
| Central Supply               | 58,997            | 60,723            |
| Dietary                      | 9,609             | 7,888             |
| Other                        | 105,398           | 104,873           |
| Total Supplies               | <u>\$ 303,683</u> | <u>\$ 291,249</u> |
| <br><b>Prepaid Expenses:</b> | <br><u>2013</u>   | <br><u>2012</u>   |
| Dues and Other               | <u>\$ 111,702</u> | <u>\$ 88,229</u>  |

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)  
JUNE 30, 2013 AND 2012**

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| <b>Patient Days</b>                    |                      |                      |
| Acute                                  | 1,379                | 1,360                |
| Swing-Bed                              | 815                  | 885                  |
| Long-Term Care                         | 7,676                | 7,814                |
| Nursery                                | <u>230</u>           | <u>263</u>           |
| Totals                                 | <u><u>10,100</u></u> | <u><u>10,322</u></u> |
| <b>Admissions</b>                      |                      |                      |
| Acute                                  | 440                  | 415                  |
| Swing-Bed                              | 91                   | 97                   |
| Long-Term Care                         | <u>12</u>            | <u>11</u>            |
| Totals                                 | <u><u>543</u></u>    | <u><u>523</u></u>    |
| <b>Discharges</b>                      |                      |                      |
| Acute                                  | 440                  | 417                  |
| Swing-Bed                              | 91                   | 94                   |
| Long-Term Care                         | <u>12</u>            | <u>11</u>            |
| Totals                                 | <u><u>543</u></u>    | <u><u>522</u></u>    |
| Acute Average Length of Stay           | <u>3.10</u>          | <u>3.70</u>          |
| Swing-Bed Average Length of Stay       | <u>9.00</u>          | <u>2.40</u>          |
| Acute Beds                             | <u>25</u>            | <u>25</u>            |
| Long-Term Care Beds                    | <u>22</u>            | <u>22</u>            |
| Percentage of Occupancy:               |                      |                      |
| Acute and Swing-Bed (Based on 25 Beds) | 24.0%                | 24.6%                |
| Long-Term Care (Based on 22 Beds)      | <u>95.6%</u>         | <u>97.3%</u>         |
| Outpatient Visits                      | <u>22,204</u>        | <u>22,088</u>        |
| Clinic Visits:                         |                      |                      |
| Graettinger                            | <u>2,937</u>         | <u>2,988</u>         |
| Emmetsburg                             | <u>24,426</u>        | <u>22,837</u>        |
| West Bend                              | <u>4,375</u>         | <u>4,534</u>         |



**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 Hospital  
dba: Palo Alto County Health System  
Emmetsburg, Iowa

We have audited the financial statements of Palo Alto County Hospital, dba: Palo Alto County Health System (Health System), as of and for the year ended June 30, 2013, and its discretely presented component unit, Palo Alto County Health Care Foundation, as of December 31, 2012, and have issued our report thereon dated August 26, 2013. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs listed as item 2013-1 to be a material weakness.

Board of Trustees  
Palo Alto County Hospital  
dba: Palo Alto County Health System

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Health System, 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*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Finding and Responses.

Comments involving statutory and other legal matters about the Health System's operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to Findings**

The Health System's response to finding identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Health System's responses, we did not audit the Health System's responses, and accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
August 26, 2013

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

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

**2013-1 Preparation of Financial Statements**

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

**Condition:** Palo Alto County Hospital dba: Palo Alto County Health System does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

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

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

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

**Conclusion:** Response accepted

**PALO ALTO COUNTY HOSPITAL  
DBA: PALO ALTO COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2013**

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-13     **Certified Budget:** Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted in the general government and business type activities functions due to additional expenditures for the early extinguishment of long-term debt. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.

II-B-13     **Questionable Expenditures:** We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13     **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.

II-D-13     **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.

II-E-13     **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-13     **Deposits and Investments:** The Health System exceeded limits within its depository resolution during the year ended June 30, 2013.

**Recommendation:** It is recommended that the Health System transfer funds or increase its depository resolution limits to not exceed allowable amounts in the future.

**Response:** The Health System will transfer funds to ensure they remain within their depository resolution limits.

**Conclusion:** Response accepted.

II-G-13     **Publication of Bills Allowed and Salaries:** Chapter 347.13(11) 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 published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.