

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
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**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>
<u>Board of Trustees</u>		
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
<u>Health System Officials</u>		
Desiree Einsweiler	Chief Executive Officer	
Renay Hauswirth	Director of Finance	
Coleen Ruddy	Director of Patient Billing	
JoAnn Higgins	Director of Nursing	

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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 the business-type activities 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, 2014 and 2013 and December 31, 2013 and 2012, respectively, and the related statements of revenues, expenses, and changes in net position, 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 opinions 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, 2014 and 2013 and December 31, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 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 audit was 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 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, other than the Schedule of Comparative Statistics on page 41, 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.

The table of the board of trustees and health system officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 September 23, 2014, 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
September 23, 2014

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**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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, 2014, 2013, and 2012. 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, 2014, indicates total assets of \$39,611,798, deferred inflows of resources of \$1,277,481, total liabilities of \$11,013,955 and net position of \$27,320,362.

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Financial Highlights (Continued)

- The Statements of Revenues, Expenses and Changes in Net Position indicate total net operating revenue of \$23,594,879 an increase of 2.7% over the previous fiscal year, total operating expenses of \$23,648,267 an increase 3.75% resulting in a loss from operations of \$53,388 or -.2% compared to .8% from the previous year. The Health System had a non-operating gain of \$1,327,501.
- The Health System's current assets exceeded its current liabilities by \$15,758,195 at June 30, 2014, providing a 7.1 current ratio.
- The Health System recorded an excess of revenues over expenses for fiscal year ending June 30, 2014, amounting to \$1,274,113.
- Gross outpatient charges increased 6.9% during fiscal year 2014.
- Total operating expenses increased 4% from the previous fiscal year.
- Gross days in accounts receivable continue to be very favorable at 43 on June 30, 2014.
- Total acute patient days total 1,062 a 23% decrease from prior year
 - Skilled care days 885 (8.6% increase)
 - Long-term care days 7,780 (1.4% increase)
 - Surgeries 938 (6.1% increase)
 - Physical Therapy visits 6,745 (0.52% 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 full time Physician Assistant
- Hired a new part time Nurse Practitioner
- Updated Willow Ridge Senior Living Apartments
- Hired a new Occupational Therapist
- Currently working on a Master Facility Plan construction project to update the ER, rehab services, clinic, and registration
- Received funding from the Foundation and Auxiliary to purchase a van for PARC Hall and Willow Ridge residents
- Implemented retail pharmacy 340B
- Completed a LEAN Shingo Assessment to assess current organization culture and create action steps to improve low scoring areas

**PALO ALTO COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Condensed Financial Statements

Table 1: Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current Assets	\$ 17,074,330	\$ 14,820,899	\$ 11,985,687
Noncurrent Cash and Investments	4,307,772	4,279,709	4,241,311
Capital Assets, Net	16,952,215	18,041,818	19,088,377
Succeeding Year Property Tax Receivable	1,277,481	1,198,895	1,145,423
Other Assets	-	-	148,544
Total Assets	<u>\$ 39,611,798</u>	<u>\$ 38,341,321</u>	<u>\$ 36,609,342</u>
LIABILITIES			
Current Liabilities	\$ 2,593,616	\$ 2,578,780	\$ 2,383,310
Long-Term Debt (Less Current Maturities)	8,390,017	8,485,486	8,575,912
Other Liabilities	30,322	31,911	32,525
Total Liabilities	<u>11,013,955</u>	<u>11,096,177</u>	<u>10,991,747</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>1,277,481</u>	<u>1,198,895</u>	<u>1,145,423</u>
NET POSITION			
Net Investment in Capital Assets	8,462,198	9,461,332	10,571,009
Restricted - Expendable Under Bond Agreement	1,096,878	1,094,686	1,092,499
Unrestricted	17,761,286	15,490,231	12,808,664
Total Net Position	<u>27,320,362</u>	<u>26,046,249</u>	<u>24,472,172</u>
Total Liabilities and Net Position	<u>\$ 39,611,798</u>	<u>\$ 38,341,321</u>	<u>\$ 36,609,342</u>

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Long-Term Debt

Palo Alto County Health System had \$100,000 and \$8,390,017 in short-term and long-term debt, respectively, for the year ended June 30, 2014, and \$95,000 and \$8,485,486 in short-term and long-term debt, respectively, for the year ended June 30, 2013.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Net Patient Service Revenue	\$ 22,750,051	\$ 22,065,695	\$ 21,255,873
Apartment Revenue	390,268	428,347	419,591
Other Revenue	454,560	484,612	658,972
Total Operating Revenues	<u>23,594,879</u>	<u>22,978,654</u>	<u>22,334,436</u>
OPERATING EXPENSES			
Salaries and Wages	8,696,358	8,502,102	8,170,519
Employee Benefits	3,323,447	2,878,572	2,799,758
Supplies and Other Expenses	9,389,021	9,002,301	8,388,955
Depreciation and Amortization	1,796,885	1,815,097	1,863,393
Interest	442,556	595,399	741,239
Total Operating Expenses	<u>23,648,267</u>	<u>22,793,471</u>	<u>21,963,864</u>
OPERATING INCOME (LOSS)	(53,388)	185,183	370,572
Nonoperating Revenues, Net	<u>1,327,501</u>	<u>1,333,281</u>	<u>1,243,251</u>
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	1,274,113	1,518,464	1,613,823
Capital Grants and Contributions	<u>-</u>	<u>55,613</u>	<u>53,411</u>
Increase in Net Position	1,274,113	1,574,077	1,667,234
Net Position, Beginning of Year	<u>26,046,249</u>	<u>24,472,172</u>	<u>22,804,938</u>
NET POSITION, END OF YEAR	<u>\$ 27,320,362</u>	<u>\$ 26,046,249</u>	<u>\$ 24,472,172</u>

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Economic and Other Factors and Next Year's Budget

The Health System's Board and management considered many factors when preparing the fiscal year 2015 budget. Of primary consideration in the 2015 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 280 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, 2014 AND 2013**

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 13,684,529	\$ 12,080,771
Patient and Resident Receivables, Net of Allowance for Uncollectible Accounts (\$575,142 in 2014, \$644,754 in 2013)	2,673,162	2,128,677
Other Receivables	92,093	143,422
Estimated Third-Party Payor Settlements	205,604	52,644
Succeeding Year Property Tax Receivable	1,277,481	1,198,895
Supplies	287,307	303,683
Prepaid Expenses	131,635	111,702
Total Current Assets	<u>18,351,811</u>	<u>16,019,794</u>
 NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	3,210,894	3,185,023
Restricted by Bond Agreement	1,096,878	1,094,686
Total Noncurrent Cash and Investments	<u>4,307,772</u>	<u>4,279,709</u>
 CAPITAL ASSETS, NET		
	<u>16,952,215</u>	<u>18,041,818</u>
 Total Assets	 <u><u>\$ 39,611,798</u></u>	 <u><u>\$ 38,341,321</u></u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 100,000	\$ 95,000
Accounts Payable	623,625	495,456
Payable to Affiliated Organization	254,764	350,489
Accrued Expenses:		
Salaries and Wages	214,617	181,945
Paid Time-off	629,413	634,657
Interest	182,362	184,143
Payroll Taxes and Benefits	233,835	318,090
Estimated Health Claims	355,000	319,000
Total Current Liabilities	<u>2,593,616</u>	<u>2,578,780</u>
SECURITY DEPOSITS	30,322	31,911
LONG-TERM DEBT	<u>8,390,017</u>	<u>8,485,486</u>
Total Liabilities	11,013,955	11,096,177
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue - Succeeding Year Property Tax Receivable	<u>1,277,481</u>	<u>1,198,895</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	8,462,198	9,461,332
Restricted - Expendable Under Bond Agreement	1,096,878	1,094,686
Unrestricted	<u>17,761,286</u>	<u>15,490,231</u>
Total Net Position	<u>27,320,362</u>	<u>26,046,249</u>
Total Liabilities and Net Position	<u><u>\$ 39,611,798</u></u>	<u><u>\$ 38,341,321</u></u>

**PALO ALTO COUNTY HEALTH CARE FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 678,808	\$ 672,872
Accrued Interest Receivable	4,507	2,977
Total Current Assets	683,315	675,849
NONCURRENT CASH AND INVESTMENTS		
	1,140,505	1,136,231
Total Assets	\$ 1,823,820	\$ 1,812,080
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Health System	\$ -	\$ 38,175
Total Current Liabilities	-	38,175
NET ASSETS		
Unrestricted	1,823,820	1,773,905
Total Liabilities and Net Assets	\$ 1,823,820	\$ 1,812,080

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, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts of \$626,357 in 2014 and \$591,134 in 2013)	\$ 22,750,051	\$ 22,065,695
Apartment Revenue	390,268	428,347
Other Operating Revenue	454,560	484,612
Total Operating Revenues	23,594,879	22,978,654
EXPENSES		
Salaries and Wages	8,696,358	8,502,102
Employee Benefits	3,323,447	2,878,572
Supplies and Other Expenses	9,389,021	9,002,301
Depreciation	1,796,885	1,815,097
Interest and Amortization	442,556	595,399
Total Expenses	23,648,267	22,793,471
OPERATING INCOME (LOSS)	(53,388)	185,183
NONOPERATING REVENUE		
Investment Income	50,656	55,044
Tax Apportionments	1,221,772	1,170,843
Noncapital Contributions and Grants	48,861	32,578
Insurance Proceeds	-	73,675
Gain on Sale of Capital Assets	6,212	1,141
Nonoperating Gains, Net	1,327,501	1,333,281
EXCESS OF REVENUES OVER EXPENSES	1,274,113	1,518,464
CAPITAL GRANTS AND CONTRIBUTIONS	-	55,613
INCREASE IN NET POSITION	1,274,113	1,574,077
Net Position, Beginning of Year	26,046,249	24,472,172
NET POSITION, END OF YEAR	\$ 27,320,362	\$ 26,046,249

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
REVENUES		
Investment Income	\$ 30,646	\$ 33,078
Contributions	17,944	15,552
Total Revenues	48,590	48,630
EXPENSES		
Other Expenses	444	405
Contributions to Health System	(1,769)	65,586
Total Expenses	(1,325)	65,991
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 49,915	 (17,361)
Net Assets, Beginning of Year	1,773,905	1,791,266
 NET ASSETS, END OF YEAR	 \$ 1,823,820	 \$ 1,773,905

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients, Residents and Third-Party Payors	\$ 22,442,874	\$ 22,780,153
Cash Paid to Employees	(12,042,413)	(11,393,128)
Cash Paid to Suppliers and Contractors	(9,413,918)	(8,835,284)
Other Receipts and Payments, Net	505,889	568,345
Net Cash Provided by Operating Activities	1,492,432	3,120,086
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-Capital Grants and Contributions	48,861	32,578
County Tax Revenue Received	1,221,772	1,170,843
Net Cash Provided by Non-Capital Financing Activities	1,270,633	1,203,421
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(95,000)	(90,000)
Purchase of Capital Assets	(653,498)	(767,397)
Proceeds from the Sale of Capital Assets	6,212	-
Interest Payments on Long-term Debt	(438,025)	(442,281)
Net Security Deposits Paid	(1,589)	(614)
Capital Grants and Contributions	-	55,613
Net Cash Used by Capital and Related Financing Activities	(1,181,900)	(1,244,679)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and Transfers of Investments	(28,063)	(38,398)
Investment Income	50,656	55,044
Net Cash Provided by Investing Activities	22,593	16,646
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,603,758	3,095,474
Cash and Cash Equivalents - Beginning	12,080,771	8,985,297
CASH AND CASH EQUIVALENTS - ENDING	\$ 13,684,529	\$ 12,080,771

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, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ (53,388)	\$ 185,183
Adjustments to Reconcile Adjusted Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,796,885	1,815,097
Amortization	4,531	153,118
Interest Expense Considered Capital and Related Financing Activity	438,025	442,281
Provision for Bad Debts	626,357	591,134
Insurance Proceeds	-	73,675
(Increase) Decrease in:		
Patient and Resident Receivables	(1,170,842)	(610,269)
Other Receivables	51,329	10,058
Supplies	16,376	(12,434)
Prepaid Expenses	(19,933)	(23,473)
Increase (Decrease) in:		
Accounts Payable - Trade and Affiliated	(21,340)	202,924
Accrued Expenses	(22,608)	(12,454)
Estimated Third-Party Payor Settlements	(152,960)	305,246
Net Cash Provided by Operating Activities	\$ 1,492,432	\$ 3,120,086
NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets included in Accounts Payable	\$ 53,784	\$ 231,505

See accompanying Notes to Financial Statements.

**PALO ALTO COUNTY HEALTH CARE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) In Unrestricted Net Assets	\$ 49,915	\$ (17,361)
Changes in Assets and Liabilities:		
Accrued Interest Receivable	(1,530)	559
Due to Facility	(38,175)	38,175
Net Cash Provided by Operating Activities	10,210	21,373
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	-	125,000
Interest Capitalized to Certificates of Deposit	(4,274)	(6,132)
Net Cash Provided (Used) by Investing Activities	(4,274)	118,868
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,936	140,241
Cash and Cash Equivalents - Beginning	672,872	532,631
CASH AND CASH EQUIVALENTS - ENDING	\$ 678,808	\$ 672,872

See accompanying Notes to Financial Statements.

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**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 Foundation 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 Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation 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 Foundation 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
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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, 2014 AND 2013**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2014 and 2013.

Investment Income

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

Deferred Inflows of Resources

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 inflows of resources 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 inflows of resources consists of succeeding year property tax receivable.

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. No asset retirement obligations are reflected in these financial statements.

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.

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Change in Accounting Standards

The Hospital adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from “net assets” to “net position”. The financial statements include the Statement of Net Position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only GASB’s authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB 62, all governmental accounting guidance is codified into the GASB literature.

Significant Future Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for PACH’s fiscal year ending June 30, 2015. Management is evaluating the impact of adopting this statement but is not currently able to arrive at an estimate.

Reclassifications

Certain items in the 2013 financial statements have been reclassified for consistency with the 2014 financial statements. The results of these reclassifications did not result in changes to the Hospital’s net position or increase in net position as previously reported.

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 \$279,460 and \$449,010 for the years ended June 30, 2014 and 2013, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2014 and 2013 were approximately \$182,000 and \$284,000, 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.

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, 2012.

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, 2011.

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.

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

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 47% and 13%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2014, and 31% and 6%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2013. The 2014 and 2013 net patient and resident service revenue increased approximately \$50,000 and \$25,000, 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.

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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Total Patient and Resident Service Revenue	\$ 35,089,263	\$ 33,737,758
Revenue Adjustments:		
Medicare	(5,015,453)	(5,332,638)
Medicaid	(1,220,784)	(1,006,543)
Provision for Bad Debt	(626,357)	(591,134)
Commercial and Other	(5,476,618)	(4,741,748)
Total Contractual Adjustments and Bad Debts	<u>(12,339,212)</u>	<u>(11,672,063)</u>
Net Patient and Resident Service Revenue	<u>\$ 22,750,051</u>	<u>\$ 22,065,695</u>

**PALO ALTO COUNTY HOSPITAL
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JUNE 30, 2014 AND 2013**

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 $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

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.

NOTE 5 DEPOSITS AND INVESTMENTS

The Health System's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013, the Health System's carrying amounts of deposits and investments are as follows:

	<u>2014</u>	<u>2013</u>
Checking and Savings Accounts	\$ 13,684,529	\$ 12,080,771
Certificates of Deposit	3,210,894	3,185,023
Money Market Accounts	1,096,878	1,094,686
Total Deposits	<u>\$ 17,992,301</u>	<u>\$ 16,360,480</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 13,684,529	\$ 12,080,771
Assets Limited as to Use or Restricted	4,307,772	4,279,709
	<u>\$ 17,992,301</u>	<u>\$ 16,360,480</u>

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2013 and 2012, the Foundation's carrying amounts of deposits and investments are as follows:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 678,808	\$ 672,872
Certificates of Deposit	1,140,505	1,136,231
Total Deposits	<u>\$ 1,819,313</u>	<u>\$ 1,809,103</u>

NOTE 6 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Transfers</u>	<u>June 30, 2014</u>
Capital Assets Not Being Depreciated					
Land	\$ 140,365	\$ -	\$ -	\$ -	\$ 140,365
Construction in Progress	59,147	48,296	-	-	107,443
Total Capital Assets Not Being Depreciated	199,512	48,296	-	-	247,808
Capital Assets Being Depreciated					
Land Improvements	348,706	28,538	-	-	377,244
Buildings	23,521,449	45,405	-	-	23,566,854
Fixed Equipment	2,056,465	204,229	-	-	2,260,694
Major Movable Equipment	7,823,771	384,209	(126,541)	-	8,081,439
Total Capital Assets Being Depreciated	33,750,391	662,381	(126,541)	-	34,286,231
Accumulated Depreciation					
Land Improvements	221,824	17,052	-	-	238,876
Buildings	8,356,714	1,034,983	-	-	9,391,697
Fixed Equipment	1,634,407	82,865	-	-	1,717,272
Major Movable Equipment	5,695,140	661,985	(123,146)	-	6,233,979
Total Accumulated Depreciated	15,908,085	1,796,885	(123,146)	-	17,581,824
Total Capital Assets Being Depreciated, Net	17,842,306	(1,134,504)	(3,395)	-	16,704,407
Total Capital Assets, Net	<u>\$ 18,041,818</u>	<u>\$ (1,086,208)</u>	<u>\$ (3,395)</u>	<u>\$ -</u>	<u>\$ 16,952,215</u>

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 CAPITAL ASSETS (CONTINUED)

	July 1, 2012	Additions	(Retirements)	Transfers	June 30, 2013
Capital Assets Not Being Depreciated					
Land	\$ 140,365	\$ -	\$ -	\$ -	\$ 140,365
Construction in Progress	6,922	59,147	-	(6,922)	59,147
Total Capital Assets Not Being Depreciated					
Depreciation	147,287	59,147	-	(6,922)	199,512
Capital Assets Being Depreciated					
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
Accumulated Depreciation					
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>

NOTE 7 LONG-TERM DEBT

A schedule of changes in long-term debt for 2014 and 2013 is as follows:

	Balance July 1, 2013	Additions	(Payments) & (Amortization)	Balance July 1, 2014	Due Within One Year
Hospital Revenue Bonds, Series 2006	\$ 8,660,000	\$ -	\$ (95,000)	\$ 8,565,000	\$ 100,000
	8,660,000	-	(95,000)	8,565,000	100,000
Bond OID Less Premium 2006	(79,514)	-	4,531	(74,983)	-
Total Long-Term Debt	<u>\$ 8,580,486</u>	<u>\$ -</u>	<u>\$ (90,469)</u>	8,490,017	<u>\$ 100,000</u>
Less Current Maturities				(100,000)	
				<u>\$ 8,390,017</u>	
	Balance	Additions	(Payments) & (Amortization)	Balance July 1, 2013	Due Within 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 Maturates				(95,000)	
				<u>\$ 8,485,486</u>	

**PALO ALTO COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT (CONTINUED)

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

Years Ending June 30,	Long-Term Debt		Total
	Principal	Interest	
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
2019	115,000	415,091	530,091
2020-2024	690,000	1,975,431	2,665,431
2025-2029	910,000	1,770,531	2,680,531
2030-2034	3,715,000	1,190,922	4,905,922
2035-2036	2,715,000	213,328	2,928,328
	<u>\$ 8,565,000</u>	<u>\$ 7,277,828</u>	<u>\$ 15,842,828</u>

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, 2014 and 2013.

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.

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Plan members are required to contribute 5.95% of their annual covered salary, and the Health System is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Contribution requirements are established by state statute. The Health System's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$770,342, \$730,700, and \$659,042, respectively, equal to the required contributions for each year.

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 \$2,834,167 and \$2,708,923 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were \$449,559 and \$418,226, respectively.

Due to Affiliated Organization

As of June 30, 2014 and 2013, the Health System's records reflect an amount due to MMC-NI of \$254,764 and \$350,489, 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, 2014 AND 2013**

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 \$355,000 and \$319,000 has been established to record the incurred but not reported claims outstanding at June 30, 2014 and 2013.

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, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	35%	35%
Medicaid	11%	8%
Blue Cross	23%	19%
Other Third-Party Payors, Patients and Residents	31%	38%
	<u>100%</u>	<u>100%</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**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, 2014**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,221,772	\$ -	\$ 1,221,772	\$ 1,198,895	\$ 22,877
Estimated Other Revenues/Receipts	<u>23,700,608</u> 24,922,380	<u>(675,768)</u> (675,768)	<u>23,024,840</u> 24,246,612	<u>25,293,601</u> 26,492,496	<u>(2,268,761)</u> (2,245,884)
Expenses/Disbursements	<u>23,648,267</u>	<u>(1,005,413)</u>	<u>22,642,854</u>	<u>25,252,615</u>	<u>2,609,761</u>
Net	1,274,113	329,645	1,603,758	1,239,881	363,877
Balance Beginning of Year	<u>26,046,249</u>	<u>(13,965,478)</u>	<u>12,080,771</u>	<u>15,439,086</u>	<u>(3,358,315)</u>
Balance End of Year	<u>\$ 27,320,362</u>	<u>\$ (13,635,833)</u>	<u>\$ 13,684,529</u>	<u>\$ 16,678,967</u>	<u>\$ (2,994,438)</u>

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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, 2014.

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, 2014 AND 2013**

	Total	
	2014	2013
PATIENT AND RESIDENT SERVICE REVENUE		
Medical and Surgical	\$ 1,038,517	\$ 1,306,868
Nursery	170,081	150,375
Long-Term Care	1,244,234	1,213,631
Total Patient and Resident Service Revenue	<u>2,452,832</u>	<u>2,670,874</u>
OTHER PROFESSIONAL SERVICE REVENUE		
Operating Room	2,991,549	2,793,659
Emergency Room	2,872,779	2,912,089
Labor and Delivery Room	96,467	86,712
Obstetric Services	402,259	317,147
Anesthesiology	837,321	805,271
Radiology and Ultrasound	6,040,854	5,274,648
Laboratory	4,365,398	3,884,150
Respiratory Therapy	859,267	1,073,104
Physical Therapy	1,101,301	1,043,175
Occupational Therapy	122,242	139,897
Speech Therapy	26,832	20,927
Electrocardiology	689,093	615,069
Medical and Surgical Supplies	516,991	493,544
Pharmacy	3,193,649	3,314,525
Ambulance	1,242,210	1,057,453
Home Health	609,997	601,952
Hospice	770,817	893,028
Cardiac Rehabilitation	152,605	103,980
Pulmonary Rehabilitation	23,792	46,115
Graettinger Clinic	462,603	486,503
Emmetsburg Clinic	4,790,277	4,652,926
West Bend Clinic	747,588	900,020
Total Other Professional Service Revenue	<u>32,915,891</u>	<u>31,515,894</u>
Gross Patient and Resident Charges	35,368,723	34,186,768
Charity Care	<u>(279,460)</u>	<u>(449,010)</u>
Total Patient Service Revenues	35,089,263	33,737,758
CONTRACTUAL ADJUSTMENTS		
Medicare	(5,015,453)	(5,332,638)
Medicaid	(1,220,784)	(1,006,543)
Commercial and Other	<u>(5,476,618)</u>	<u>(4,741,748)</u>
Total Contractual Adjustments	<u>(11,712,855)</u>	<u>(11,080,929)</u>
Patient and Resident Service Revenues, Net of Contractual Adjustments	23,376,408	22,656,829
Provision for Bad Debts	<u>(626,357)</u>	<u>(591,134)</u>
Net Patient and Resident Service Revenues	<u>\$ 22,750,051</u>	<u>\$ 22,065,695</u>

Inpatient		Outpatient	
2014	2013	2014	2013
\$ 1,038,517	\$ 1,306,868	\$ -	\$ -
170,081	150,375	-	-
1,244,234	1,213,631	-	-
<u>2,452,832</u>	<u>2,670,874</u>	<u>-</u>	<u>-</u>
268,610	257,975	2,722,939	2,535,684
116,830	190,637	2,755,949	2,721,452
96,467	86,712	-	-
283,637	239,343	118,622	77,804
59,247	60,008	778,074	745,263
149,399	255,002	5,891,455	5,019,646
327,944	395,914	4,037,454	3,488,236
415,760	610,841	443,507	462,263
179,705	143,597	921,596	899,578
24,208	51,017	98,034	88,880
6,312	7,305	20,520	13,622
28,970	42,874	660,123	572,195
67,342	61,523	449,649	432,021
606,231	834,529	2,587,418	2,479,996
-	-	1,242,210	1,057,453
-	-	609,997	601,952
97,080	46,821	673,737	846,207
-	-	152,605	103,980
-	-	23,792	46,115
-	-	462,603	486,503
-	-	4,790,277	4,652,926
-	-	747,588	900,020
<u>2,727,742</u>	<u>3,284,098</u>	<u>30,188,149</u>	<u>28,231,796</u>
<u>\$ 5,180,574</u>	<u>\$ 5,954,972</u>	<u>\$ 30,188,149</u>	<u>\$ 28,231,796</u>

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**PALO ALTO COUNTY HOSPITAL
 DBA: PALO ALTO COUNTY HEALTH SYSTEM
 SCHEDULES OF OTHER OPERATING REVENUES
 YEARS ENDED JUNE 30, 2014 AND 2013**

OTHER OPERATING REVENUES	2014	2013
Home Health Support	\$ 220,612	\$ 217,375
Business Health	120,214	125,990
Meals Sold	67,209	67,953
Lifeline	-	33,159
Specialty Clinic	32,731	28,876
Willow Ridge	5,880	4,100
Miscellaneous	7,914	7,159
Total Other Operating Revenues	\$ 454,560	\$ 484,612

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013**

	Total	
	2014	2013
Medical and Surgical	\$ 927,167	\$ 924,881
Nursery	37,595	39,971
Long-Term Care	740,026	722,257
Operating Room	582,082	575,706
Emergency Room	1,277,826	1,109,277
Labor and Delivery Room	26,406	22,640
Obstetric Services	192,063	204,810
Anesthesiology	328,231	319,736
Radiology and Ultrasound	924,758	902,629
Laboratory	889,515	835,820
Respiratory Therapy	88,516	85,938
Physical Therapy	326,496	322,854
Occupational Therapy	53,271	45,671
Speech Pathology	14,505	13,427
Electrocardiology	87,620	87,145
Pharmacy	857,782	749,731
Ambulance	422,052	337,232
Home Health	572,049	578,833
Hospice	147,721	156,065
Cardiac Rehab	112,882	94,897
Pulmonary Rehab	20,646	20,561
Specialty Clinic	8,583	9,847
Graettinger Clinic	375,044	369,124
Emmetsburg Clinic	3,390,311	3,384,057
West Bend Clinic	575,838	570,074
Apartments	147,306	118,861
Business Health	128,583	121,536
Diabetic Education	27,399	23,421
Administrative and General	2,583,810	2,533,365
Operation of Plant	668,208	644,821
Housekeeping, Laundry and Linen	250,402	258,791
Dietary	533,088	528,669
Nursing Administration	191,964	188,312
Medical Records	280,450	276,324
Blood	51,293	40,984
Central Supply	243,891	286,136
Employee Benefits	3,323,447	2,878,572
Depreciation Expense	1,796,885	1,815,097
Amortization Expense	4,531	153,118
Interest Expense	438,025	442,281
TOTAL	\$ 23,648,267	\$ 22,793,471

Salaries and Wages		Other	
2014	2013	2014	2013
\$ 850,571	\$ 829,949	\$ 76,596	\$ 94,932
30,053	31,149	7,542	8,822
672,703	654,212	67,323	68,045
458,175	439,152	123,907	136,554
379,366	343,957	898,460	765,320
3,570	5,093	22,836	17,547
179,426	193,210	12,637	11,600
-	-	328,231	319,736
366,752	378,922	558,006	523,707
438,399	430,941	451,116	404,879
32,287	36,953	56,229	48,985
302,062	280,538	24,434	42,316
41,218	44,914	12,053	757
-	-	14,505	13,427
4,076	4,023	83,544	83,122
-	-	857,782	749,731
282,153	238,643	139,899	98,589
492,220	483,783	79,829	95,050
93,758	97,788	53,963	58,277
104,392	89,019	8,490	5,878
17,119	19,842	3,527	719
7,724	8,204	859	1,643
223,537	222,446	151,507	146,678
1,038,397	1,040,623	2,351,914	2,343,434
302,475	303,719	273,363	266,355
56,459	55,610	90,847	63,251
95,285	81,610	33,298	39,926
26,388	22,678	1,011	743
948,429	897,568	1,635,381	1,635,797
245,944	255,927	422,264	388,894
213,119	224,111	37,283	34,680
347,233	348,815	185,855	179,854
184,757	179,462	7,207	8,850
239,539	236,194	40,911	40,130
3,276	2,930	48,017	38,054
15,496	20,117	228,395	266,019
-	-	3,323,447	2,878,572
-	-	1,796,885	1,815,097
-	-	4,531	153,118
-	-	438,025	442,281
<u>\$ 8,696,358</u>	<u>\$ 8,502,102</u>	<u>\$ 14,951,909</u>	<u>\$ 14,291,369</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, 2014 AND 2013**

Analysis of Aging

Age of Accounts (by Date of Discharge)	June 30, 2014		June 30, 2013	
	Amount	Percent	Amount	Percent
30 Days or Less	\$ 2,846,022	61.84 %	\$ 2,383,227	60.99 %
31-60 Days	749,646	16.29 %	572,496	14.65 %
61-90 Days	325,668	7.08 %	305,950	7.83 %
91 Days and Over	680,868	14.79 %	645,658	16.53 %
Total Accounts Receivable	4,602,204	100.00 %	3,907,331	100.00 %
Less: Allowances				
Allowance for Contractual Adjustments	1,353,900		1,133,900	
Allowance for Doubtful Accounts	575,142		644,754	
Net Accounts Receivable	<u>\$ 2,673,162</u>		<u>\$ 2,128,677</u>	

Analysis of Allowance for Doubtful Accounts for the Years Ended June 30, 2014 and 2013:

	2014	2013
Beginning Balance	\$ 644,754	\$ 734,568
Add:		
Provision for Doubtful Accounts	626,357	591,134
Recoveries Previously Written-Off	498,100	572,018
	1,124,457	1,163,152
Less:		
Accounts Written-Off	(1,194,069)	(1,252,966)
Ending Balance	<u>\$ 575,142</u>	<u>\$ 644,754</u>

Collection Statistics

	2014	2013
Patient and Resident Receivables, Net	\$ 2,673,162	\$ 2,128,677
Number of Days Revenue Outstanding	43	35
Uncollectable Accounts (1)	943,886	1,079,453
Percentage of Uncollectable Accounts to Total Charges	2.7%	3.2%

(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, 2014 AND 2013**

Supplies:	<u>2014</u>	<u>2013</u>
Pharmacy	\$ 122,805	\$ 129,679
Central Supply	63,504	58,997
Dietary	9,169	9,609
Other	91,829	105,398
Total Supplies	<u>\$ 287,307</u>	<u>\$ 303,683</u>
Prepaid Expenses:	<u>2014</u>	<u>2013</u>
Dues and Other	<u>\$ 131,635</u>	<u>\$ 111,702</u>

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Patient Days		
Acute	1,062	1,379
Swing-Bed	885	815
Long-Term Care	7,780	7,676
Nursery	<u>250</u>	<u>230</u>
Totals	<u><u>9,977</u></u>	<u><u>10,100</u></u>
Admissions		
Acute	343	440
Swing-Bed	113	91
Long-Term Care	<u>4</u>	<u>12</u>
Totals	<u><u>460</u></u>	<u><u>543</u></u>
Discharges		
Acute	352	440
Swing-Bed	112	91
Long-Term Care	<u>5</u>	<u>12</u>
Totals	<u><u>469</u></u>	<u><u>543</u></u>
Acute Average Length of Stay	<u><u>3.00</u></u>	<u><u>3.10</u></u>
Swing-Bed Average Length of Stay	<u><u>7.90</u></u>	<u><u>9.00</u></u>
Acute Beds	<u><u>25</u></u>	<u><u>25</u></u>
Long-Term Care Beds	<u><u>22</u></u>	<u><u>22</u></u>
Percentage of Occupancy:		
Acute and Swing-Bed (Based on 25 Beds)	21.3%	24.0%
Long-Term Care (Based on 22 Beds)	<u><u>96.9%</u></u>	<u><u>95.6%</u></u>
Outpatient Visits	<u><u>22,308</u></u>	<u><u>22,204</u></u>
Clinic Visits:		
Graettinger	<u><u>2,688</u></u>	<u><u>2,937</u></u>
Emmetsburg	<u><u>22,789</u></u>	<u><u>24,426</u></u>
West Bend	<u><u>3,984</u></u>	<u><u>4,375</u></u>

**INDEPENDENT AUDITORS' 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, 2014, and its discretely presented component unit, Palo Alto County Health Care Foundation, as of December 31, 2013, and have issued our report thereon dated September 23, 2014. 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 2014-1 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, 2014, 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 the finding identified in our audit is 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
September 23, 2014

**PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to Financial Statements

2014-1 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, 2014**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 **Certified Budget:** Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted in the general government and business type activities functions. 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, 2014.

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.