

**Skiff Medical Center  
Newton, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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**Skiff Medical Center  
OFFICIALS**

**Term expires**

**(Before January 2004)**

**BOARD OF TRUSTEES**

**Officers**

Carroll Bennett, Chair	January, 2006
Nancy Noth, Ph.D, Vice Chair	January, 2004
Ron Nagel, Past Chair	January, 2004
Kristin Rhoads, OD, Secretary	January, 2004

**Members**

Gary Kahn	January, 2006
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**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Eric Lothe

**VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER**

Cheryl Ritter

**VICE-PRESIDENT OF PATIENT CARE SERVICES**

Steve Wilbur

**Term expires**

**(After January 2004)**

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Carroll Bennett, Chair	January, 2006
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Gary Kahn	January, 2006
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Steve Wilbur

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Skiff Medical Center  
Newton, Iowa

We have audited the accompanying balance sheets of Skiff Medical Center, a component unit of the City of Newton, Iowa, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skiff Medical Center as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2004 on our consideration of Skiff Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 6, 2004

## SKIFF MEDICAL CENTER

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Skiff Medical Center, we offer readers of the Medical Center's financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Medical Center. The financial statements also include notes that explain in more detail some of the information in the financial statements.

#### REQUIRED FINANCIAL STATEMENTS

The financial statements of the Medical Center report information of the Medical Center using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

#### FINANCIAL HIGHLIGHTS

- Total assets decreased by \$447,000 to \$32,787,000 in Fiscal Year (FY) '04, following an increase of \$2,346,000 in FY '03.
- Total assets whose use is limited has decreased by \$3,893,000 over the past two fiscal years.
- Total property and equipment, net of depreciation, increased by \$1,974,000 in FY '04 and by \$2,674,000 in FY '03.
- Fund equity decreased by \$81,000 in FY '04 and increased by \$891,000 in FY '03.
- Net patient service revenue increased by \$1,589,000 during FY '04, primarily due to an increase in utilization. The increase for fiscal year '03 was \$1,420,000.
- Operating expenses increased by \$3,406,000 in FY '04 and by \$1,949,000 in FY '03.
- Total margin for FY 2004 was (0.3%), compared to 3.5% for FY 2003.

For the third year in a row, inpatient utilization increased from the prior year. This utilization, which is predicted to increase nationwide for the next several years, is due in part to the aging of the baby boomer generation. The revenue for outpatient visits was also up during this time period, driven by an increase in the number of radiology visits and the complexity of those diagnostic tests. Provision for bad debt more than doubled between FY '03 and FY '04 from \$542,000 to \$1,101,000. This significant change was due in part to hardships within the local economy and previous years of national economic stress.

The overall expense increase is driven by increases in salary and benefit expense, which represents over 60% of

our total expenses. During fiscal year 2004 we started staffing the emergency room with employed physicians. Although this contributed to our increase in salary and benefit expense, it also contributed to our revenue growth. The shortage of healthcare workers continues to drive market increases in salaries. Depreciation expense increased over 20% each of the past two fiscal years due to significant investments in equipment and buildings in recent years.

## FINANCIAL ANALYSIS OF THE MEDICAL CENTER

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the Medical Center and the changes in them. The Medical Center's net assets – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

## NET ASSETS

A summary of the Medical Center's balance sheets at June 30, 2004, 2003 and 2002, are presented in Table 1 below.

**Table 1**  
**Condensed Balance Sheets**  
**(in Thousands)**

	June 30, 2004	June 30, 2003	June 30, 2002	FY '03 to FY' 04 \$ Change	FY '03 to FY' 04 % Change	FY '02 to FY' 03 \$ Change	FY '02 to FY' 03 % Change
Current and other assets	\$8,552	\$10,974	\$11,302	(\$2,421)	(22%)	(\$328)	(3%)
Capital assets	24,234	22,260	19,586	1,974	9%	2,674	14%
<b>Total Assets</b>	<b>\$32,787</b>	<b>\$33,233</b>	<b>\$30,888</b>	<b>(\$447)</b>	<b>(1%)</b>	<b>\$2,346</b>	<b>8%</b>
Long-term debt outstanding	\$2,541	\$3,381	\$2,830	(\$840)	(25%)	\$550	19%
Other liabilities	3,823	3,349	2,445	474	14%	904	37%
<b>Total liabilities</b>	<b>\$6,364</b>	<b>\$6,730</b>	<b>\$5,275</b>	<b>(\$366)</b>	<b>(5%)</b>	<b>\$1,454</b>	<b>28%</b>
Invested in capital assets,							
net of related debt	\$20,179	\$17,551	\$16,059	\$2,628	15%	\$1,492	9%
Unrestricted	5,843	8,556	8,798	(2,713)	(32%)	(242)	(3%)
Restricted	400	397	755	3	1%	(358)	(48%)
<b>Total net assets</b>	<b>\$26,422</b>	<b>\$26,504</b>	<b>\$25,612</b>	<b>\$(81)</b>	<b>(0%)</b>	<b>\$891</b>	<b>4%</b>

As can be seen in Table 1, net assets decreased by \$81,000 to \$26.4 million in FY 2004. Net assets at the end of

FY '03 and FY '02 were \$26.5 million and \$25.6 million, respectively.

During fiscal year 2004, the Medical Center continued the renovation and expansion of their facility with a building project that added a six-bed residential Hospice wing, renovated the original 1922 hospital building, added an orthopedic suite and renovated office areas. Construction costs have been funded using a combination of cash generated by operations as well as assets limited as to use by the Board of Trustees for capital improvements.

## REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended June 30, 2004, 2003 and 2002.

**Table 2**  
**Condensed Statements of Revenue, Expenses, and Changes in Fund Equity**  
**(in Thousands)**

	Year ended June 30,		
	2004	2003	2002
Net patient service revenue	25,694	24,105	22,686
Other operating revenue	1,371	1,256	1,137
Total revenue	<u>\$27,065</u>	<u>\$25,361</u>	<u>\$23,823</u>
Operating Expenses:			
Nursing service	9,208	7,821	6,945
Other professional service	7,750	7,260	6,839
General service	2,885	2,509	2,262
Fiscal and administrative service and unassigned expenses	4,869	4,255	4,250
Provision for depreciation and amortization	2,926	2,387	1,987
Total Operating Expenses	<u>27,638</u>	<u>24,232</u>	<u>22,283</u>
Operating Income	(573)	1,129	1,539
Non-operating losses	90	(240)	(636)
Excess of revenues over expenses before contributions	(483)	889	903
Contributions	402	2	46
Changes in fund equity	(81)	891	949
Total fund equity, beginning	<u>26,504</u>	<u>25,612</u>	<u>24,663</u>
Total fund equity, ending	<u>\$26,422</u>	<u>\$26,504</u>	<u>\$25,612</u>

### Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2004, June 30 2003 and June 30, 2002.

**Volume:** Inpatient acute admissions (excluding normal newborns) for fiscal year 2004 were 2,001 compared to 1,881 in fiscal year 2003 and 1,836 in fiscal year 2002. The average length of stay has remained fairly steady, ranging between 3.31 and 3.43 during fiscal years 2002 through 2004. Total patient days have increased from 7,796 to 8,430 during this same time period. Inpatient surgical visits increased during the year due to expanded orthopedic coverage. Volumes also increased in these areas: radiology, laboratory, respiratory therapy and audiology.

**Net Patient Service Revenue:** Due to rate increases and the increase in patient volumes discussed above, net patient service revenues climbed by \$1.6 million, or 6.6% in comparison to fiscal year 2003. Outpatient revenue represents about 60% of our gross patient service revenue and experienced 14% growth for FY '04 and 7% growth for FY '03. Inpatient revenue, representing 35% of our gross patient service revenue, experienced growth of 17% for FY '04 and 14% for FY '03. The remaining 5% of revenue is generated through Home Health and Hospice.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2004, 2003 and 2002.

**Table 3**  
**Payor Mix by Percentage**

	Year Ended June 30,		
	2004	2003	2002
Medicare	44.3%	44.3%	43.5%
Wellmark	26.5%	27.1%	24.4%
Commercial	13.9%	14.5%	17.9%
Medicaid	7.3%	6.8%	6.1%
Self Pay	4.3%	4.5%	4.9%
All other	3.8%	2.8%	3.2%
Total	100.0%	100.0%	100.0%

**Other Operating Revenue:** The increases of \$115,000 in FY '04 and \$118,000 in FY '03 were driven by increases in revenue from public health screenings and immunizations, occupational health exams and building rental income.

**Nursing Service Expenses:** Increased inpatient utilization as well as market-driven salary increases for nursing staff drove increases of \$1,387,000, or 18%, in FY '04 and \$876,000, or 13%, in FY '03 in nursing service expenses.

**Other Professional Service Expenses:** Market-driven salary increases for healthcare workers and increased supply costs were also responsible for the majority of the \$490,000, or 7%, increase in professional service expenses during FY '04. These expenses increased by \$421,000, or 6%, in FY '03. Included in this category of expenses are the costs associated with hospital ancillary departments, such as laboratory, radiology, pharmacy and the various therapies.

**General Service Expenses:** This category includes those expenses necessary to support the medical center through plant operations, nutrition services, housekeeping and laundry. The increase in these expenses for FY '04 was \$376,000 or 15% and was \$247,000, or 11% in FY '03. In addition to increases in the number of employees required in these departments, the increased expenses were related to utilities and supplies.

**Fiscal and Administrative Expenses:** The primary drivers of the \$614,000, or 14%, increase in fiscal and administrative expenses were increases in health insurance and other insurance expenses. No significant increases had occurred during FY '03 in this expense category.

**Restricted Contributions:** During fiscal year '04, the Skiff Medical Center Foundation held a capital campaign to raise funds for the new Hospice wing. The campaign raised nearly \$1.1 million. During FY '04, \$400,000 of these funds was forwarded to the medical center to fund construction costs. The remaining funds will be transferred to the medical center as they are received from the donors.

**Non-operating Gain/(Loss):** Overall, the medical center realized a non-operating gain of \$90,000 in FY '04 and a

non-operating loss of \$240,000 in FY '03. Included in this amount are investment income and the change in the fair market value of investments, offset by interest expense. The medical center has investments in marketable equity securities. The marketable equity securities performed substantially better in fiscal year 2004 than in previous years. The investment is adjusted quarterly for increases or decreases in fair market value. For the fiscal year 2004, the fair market value increased \$279,000. The equity investment is viewed as a long-term investment vehicle, with investments in mainly large-cap stocks.

## CAPITAL ASSETS

At the end of fiscal year 2004, the Medical Center had invested \$24.2 million in capital assets as shown in Table 5. The \$2.0 million increase in capital assets is primarily a result of increases in buildings, equipment, information technology and assets held under capital leases. Buildings increased by \$2.5 million due to the completion of work on the Hospice Wing, orthopedic suite and building renovation completed during the current year. Assets held under capital lease obligations increased by \$900,000 due to the acquisition of a piece of radiology equipment and additional technology systems. The master financing agreement between the Medical Center and Citicapital supplied funding for the purchase of the radiology equipment. In addition, the hospital is acquiring a hospital wide information technology system through a master financing agreement with Oliver-Allen Technology Leasing. The financing is payable over 60 months for the radiology equipment and 36 months for the information technology equipment and software.

The following table summarizes the Medical Center's capital assets as of June 30, 2004, 2003 and 2002.

**Table 5**  
**Capital Assets**  
**(in Thousands)**

	2004	2003	2002	Change from '03 to '04	Change from '02 to '03
Land	\$1,947	\$1,947	\$1,739	\$0	\$207
Land improvements	2,179	2,179	2,050	0	128
Buildings	19,307	16,787	14,823	2,520	1,964
Fixed equipment	6,077	5,778	5,752	299	26
Major movable equipment	9,952	9,110	8,009	842	1,100
Construction in progress	582	302	890	279	(588)
Assets held under capital lease obligations	3,457	2,567	345	889	2,222
Subtotal	43,500	38,669	33,608	4,830	5,061
Less accumulated depreciation	(17,947)	(15,822)	(13,791)	(2,125)	(2,031)
Less accumulated amortization on assets held under capital leases	(1,318)	(587)	(232)	(731)	(356)
Property, plant and equipment, net	\$24,234	\$22,260	\$19,586	\$1,974	\$2,674

## **DEBT ADMINISTRATION**

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### **Long-Term Debt**

At year-end, the Medical Center had \$2.15 million in short- and long-term debt related to Hospital Revenue Bonds. This has decreased from \$2.85 million at the end of fiscal year 2003, which was the amount of principal payments on outstanding debt for fiscal year 2004. More detailed information about the Medical Center's outstanding debt is presented in the Notes to the Financial Statements. Note that total long-term debt represents 40% of the Medical Center's total liabilities as of June 30, 2004, down from 50% at the prior fiscal year-end.

### **Capital Leases**

At year-end, the Medical Center had \$2.0 million in short- and long-term capital lease obligations. This has remained nearly unchanged from fiscal year-end 2003. Payments are being made on existing lease obligations, but new obligations were added for the additional radiology equipment and technology system acquired during the year, as discussed in the Capital Assets section above. More detailed information about the Medical Center's outstanding capital lease obligations is presented in the Notes to the Financial Statements. Note that total capital lease obligations represents 31% of the Medical Center's total liabilities as of fiscal year-end '04, compared to 29% at June 30, 2003.

## **CONTACTING THE MEDICAL CENTER'S FINANCE DEPARTMENT**

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The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact Cheryl J. Ritter, Vice President/Chief Financial Officer at 641-791-4865 or via mail at 204 N. 4th Ave. East, Newton, Iowa 50208.

**Skiff Medical Center  
BALANCE SHEETS**

ASSETS	June 30	
	2004	2003
<b>CURRENT ASSETS</b>		
Cash	\$ 597,751	\$ 507,398
Assets whose use is limited, required for current liabilities	582,845	423,633
Patient receivables, less allowances for contractual adjustments and uncollectibles	4,278,934	4,875,691
Inventories	431,719	183,220
Prepaid expenses	144,102	104,116
Other current assets	56,228	39,874
Total current assets	6,091,579	6,133,932
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	58,049	75,733
Certificates of deposit	-	2,500,000
Marketable equity securities	2,585,594	2,289,331
Accrued interest receivable	262	1,863
	2,643,905	4,866,927
Restricted under loan agreement		
Cash, revenue note sinking fund	96,724	95,273
Certificate of deposit, debt service reserve fund	285,000	285,000
	381,724	380,273
Restricted by donors for specific purpose		
Certificate of deposit	18,000	16,300
Total assets whose use is limited	3,043,629	5,263,500
Less current portion	582,845	423,633
Noncurrent assets whose use is limited	2,460,784	4,839,867
<b>PROPERTY AND EQUIPMENT</b>		
Less accumulated depreciation and amortization	43,499,609	38,669,121
Total property and equipment	19,265,464	16,409,440
	24,234,145	22,259,681
Totals	\$32,786,508	\$33,233,480

See Notes to Financial Statements.

	<b>LIABILITIES AND FUND EQUITY</b>	
	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 1,514,259	\$ 1,328,062
Accounts payable		
Trade	303,710	466,147
Construction	201,121	43,360
Accrued payroll and payroll taxes	562,665	415,810
Accrued employee benefits	1,121,710	1,045,956
Estimated third-party payor settlements	<u>120,000</u>	<u>50,000</u>
Total current liabilities	<u>3,823,465</u>	<u>3,349,335</u>
 <b>LONG-TERM DEBT</b>		
Revenue notes payable, net of deferred financing costs	2,087,577	2,757,628
Obligations under capital leases	1,964,790	1,943,882
Other	<u>2,446</u>	<u>7,104</u>
	4,054,813	4,708,614
Less current maturities	<u>1,514,259</u>	<u>1,328,062</u>
Total long-term debt	<u>2,540,554</u>	<u>3,380,552</u>
 <b>COMMITMENT AND CONTINGENCIES</b>		
 <b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	20,179,332	17,551,067
Restricted		
Nonexpendable permanent endowment	18,000	16,300
Under loan agreement	381,724	380,273
Unrestricted	<u>5,843,433</u>	<u>8,555,953</u>
Total fund equity	<u>26,422,489</u>	<u>26,503,593</u>
 Totals	 <u>\$32,786,508</u>	 <u>\$33,233,480</u>

**Skiff Medical Center**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2004 \$1,101,397; 2003 \$541,693	\$25,694,267	\$24,105,334
<b>OTHER REVENUE</b>	<u>1,370,808</u>	<u>1,255,587</u>
Total revenue	<u>27,065,075</u>	<u>25,360,921</u>
<b>OPERATING EXPENSES</b>		
Nursing service	9,208,311	7,821,361
Other professional service	7,749,964	7,259,912
General service	2,885,265	2,509,360
Fiscal and administrative service and unassigned expenses	4,868,848	4,254,593
Provision for depreciation and amortization	<u>2,925,955</u>	<u>2,387,000</u>
Total operating expenses	<u>27,638,343</u>	<u>24,232,226</u>
Operating income (loss)	<u>(573,268)</u>	<u>1,128,695</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	49,921	117,297
Interest expense	(208,681)	(272,421)
Net increase (decrease) in the fair value of investments	271,597	(98,678)
Unrestricted contributions	3,845	164,900
Transfers to related foundation	-	(150,932)
(Loss) on disposal of assets	<u>(26,218)</u>	<u>-</u>
Total nonoperating gains (losses)	<u>90,464</u>	<u>(239,834)</u>
Excess (deficiency) of revenues over expenses before contributions	(482,804)	888,861
<b>RESTRICTED CONTRIBUTIONS</b>	<u>401,700</u>	<u>2,300</u>
Change in fund equity	(81,104)	891,161
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>26,503,593</u>	<u>25,612,432</u>
Ending	<u>\$26,422,489</u>	<u>\$26,503,593</u>

**Skiff Medical Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$26,361,024	\$22,955,452
Cash paid to suppliers for goods and services	(11,707,254)	(10,133,270)
Cash paid to employees for services	(13,231,839)	(11,572,311)
Home health services grants received	284,681	254,799
Contributions received for expenses of hospice services	69,465	70,901
Other operating revenue received	<u>1,000,308</u>	<u>935,618</u>
Net cash provided by operating activities	<u>2,776,385</u>	<u>2,511,189</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	3,845	164,900
Transfers to related foundation	-	(150,932)
Endowments received	<u>1,700</u>	<u>2,300</u>
Net cash provided by noncapital financing activities	<u>5,545</u>	<u>16,268</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	-	2,850,000
Payment of deferred financing costs	-	(78,694)
Principal payments on long-term debt	(1,459,691)	(3,821,555)
Interest paid on long-term debt	(175,340)	(274,633)
Acquisition of property and equipment	(4,006,685)	(2,828,106)
Proceeds from sale of property and equipment	8,750	-
Contributions received, restricted for purchase of property and equipment	<u>400,000</u>	<u>-</u>
Net cash (used in) capital and related financing activities	<u>(5,232,966)</u>	<u>(4,152,988)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(1,588,000)	(3,601,300)
Proceeds from maturities of certificates of deposit	4,086,300	5,114,000
Purchase of marketable securities	(1,312,722)	(1,339,201)
Proceeds from sale of marketable securities	1,288,056	1,338,295
Interest and dividends received	<u>51,522</u>	<u>138,759</u>
Net cash provided by investing activities	<u>2,525,156</u>	<u>1,650,553</u>
<b>NET INCREASE IN CASH</b>	74,120	25,022
<b>CASH</b>		
Beginning	<u>678,404</u>	<u>653,382</u>
Ending	<u>\$ 752,524</u>	<u>\$ 678,404</u>

See Notes to Financial Statements.

**Skiff Medical Center**  
**STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (573,268)	\$1,128,695
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,925,955	2,387,000
Change in assets and liabilities		
(Increase) decrease in patient receivables	596,757	(1,158,377)
(Increase) in inventories	(248,499)	(13,112)
(Increase) in other current assets	(16,354)	(35,774)
(Increase) in prepaid expenses	(39,986)	(71,416)
Increase (decrease) in accounts payable, trade, net of amount related to purchase of property and equipment	(160,829)	87,808
Increase in accrued payroll and payroll taxes	146,855	82,558
Increase in accrued employee benefits	75,754	53,807
Increase in net estimated third-party payor settlements	<u>70,000</u>	<u>50,000</u>
Net cash provided by operating activities	<u>\$2,776,385</u>	<u>\$2,511,189</u>
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Equipment acquired under capital leases	<u>\$ 770,941</u>	<u>\$2,222,270</u>
 <b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 597,751	\$ 507,398
Assets whose use is limited		
By board for plant replacement and expansion, cash	58,049	75,733
Under loan agreement for revenue bond, sinking fund, cash	<u>96,724</u>	<u>95,273</u>
Total per statement of cash flows	<u>\$ 752,524</u>	<u>\$ 678,404</u>

See Notes to Financial Statements.

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Medical Center is the municipal hospital of the City of Newton, Iowa, organized under Chapter 392, Code of Iowa and as such, is not subject to taxes on income or property. The Medical Center grants credit to patients, substantially all of whom are residents of Jasper County, Iowa.

**Reporting Entity**

For financial reporting purposes, the Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Medical Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. The Medical Center has no component units which meet the Governmental Accounting Standards Board criteria.

The Medical Center is includable as a component unit within the City of Newton, Iowa reporting entity due to fiscal dependence.

**Measurement Focus and Basis of Accounting**

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Medical Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

**Investments and Investment Income**

The Medical Center has adopted the provisions of GASB Statement No. 31, *Accounting and Reporting for Certain Investments and For External Investment Pools*.

The Medical Center's investments and the methods used in determining the reported amounts are as follows:

<b><u>Type</u></b>	<b><u>Method</u></b>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Equity securities Common stocks	Fair value based on quoted market prices

**Skiff Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income from investments is reported as nonoperating gains, and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded 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 on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

**Fund Equity**

Fund equity is presented in the following three components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the bonds and capital lease obligations that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted fund equity**

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Charity Care**

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Net Patient Service Revenue**

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

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Statements of Revenues, Expenses, and Changes in Fund Equity**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Accounting Estimates and Assumptions**

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

**Reclassification**

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

**NOTE 2 CASH AND INVESTMENTS**

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

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district; and common stocks.

The Medical Center's investments are categorized to give an indication of the level of risk assumed by the Medical Center at year end. At June 30, 2004, the Medical Center's investments in marketable equity securities are in a category characterized as investments that are insured or registered or for which the securities are held by the Medical Center or its agent in the Medical Center's name.

The Medical Center's investments at June 30, 2004 are as follows:

	<u>Fair value</u>
Marketable equity securities	<u>\$2,585,594</u>

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 PATIENT RECEIVABLES**

Patient accounts receivable reported as current assets consisted of these amounts:

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
Receivable from patients	\$1,304,590	\$1,376,793
Receivable from insurance carriers	2,089,370	2,632,907
Receivable from Medicare	2,281,008	2,192,688
Receivable from Medicaid	<u>549,985</u>	<u>644,053</u>
Total patient receivables	6,224,953	6,846,441
Less allowances for contractual adjustments and uncollectibles	<u>1,946,019</u>	<u>1,970,750</u>
Net patient receivables	<u>\$4,278,934</u>	<u>\$4,875,691</u>

**NOTE 4 NET PATIENT SERVICE REVENUE**

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

**Medicare**

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003) for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlement is determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

**Blue Cross**

Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based upon the lesser of the Hospital's billed charges, a maximum allowable fee or a percentage of charges.

The Medical Center has also entered into payment agreements with certain health maintenance organizations and a managed care program. The basis for payment to the Medical Center under these agreements includes prospectively determined daily rates, prospectively determined rates for ambulatory surgery services and home health services, and discounts from established rates.

**Skiff Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PROPERTY AND EQUIPMENT**

A summary of property and equipment and related accumulated depreciation and amortization follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>
Land	\$ 1,946,652	\$ —	\$ 1,946,652	\$ —
Land improvements	2,178,640	1,170,876	2,178,640	1,047,611
Buildings	19,306,556	6,131,488	16,786,877	5,227,664
Fixed equipment	6,077,249	3,760,285	5,778,347	3,522,661
Major movable equipment including equipment under capital lease 2004 \$3,456,987; 2003 \$2,567,217	13,408,915	8,202,815	11,676,729	6,611,504
Construction in progress	<u>581,597</u>	<u>—</u>	<u>301,876</u>	<u>—</u>
Totals	<u>\$43,499,609</u>	<u>\$19,265,464</u>	<u>\$38,669,121</u>	<u>\$16,409,440</u>

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$2,194,827 and \$2,031,492, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2004 and 2003 amounted to \$731,128 and \$355,508, respectively. Accumulated amortization on these assets totaled \$1,318,239 and \$587,117 at June 30, 2004 and 2003, respectively.

Construction in progress at June 30, 2004 consists of various Medical Center remodeling projects, with no significant remaining commitments.

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 1,946,652	\$ —	\$ —	\$ —	\$ 1,946,652
Land improvements	2,178,640	—	—	—	2,178,640
Buildings	16,786,877	—	—	2,519,679	19,306,556
Fixed equipment	5,778,347	6,241	—	292,661	6,077,249
Major movable equipment including equipment under capital lease	11,676,729	736,514	(104,899)	1,100,571	13,408,915
Construction in progress	<u>301,876</u>	<u>4,192,632</u>	<u>—</u>	<u>(3,912,911)</u>	<u>581,597</u>
Totals	38,669,121	4,935,387	(104,899)	—	43,499,609
Less accumulated depreciation and amortization	<u>(16,409,440)</u>	<u>(2,925,955)</u>	<u>69,931</u>	<u>—</u>	<u>(19,265,464)</u>
Net property and equipment	<u>\$22,259,681</u>	<u>\$2,009,432</u>	<u>\$ (34,968)</u>	<u>\$ —</u>	<u>\$24,234,145</u>

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in property and equipment for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 1,739,453	\$ —	\$ —	\$ 207,199	\$ 1,946,652
Land improvements	2,050,397	29,875	—	98,368	2,178,640
Buildings	14,822,585	82,414	—	1,881,878	16,786,877
Fixed equipment	5,751,994	26,353	—	—	5,778,347
Major movable equipment including equipment under capital lease	8,354,069	2,583,818	—	738,842	11,676,729
Construction in progress	889,734	2,338,429	—	(2,926,287)	301,876
Totals	33,608,232	5,060,889	—	—	38,669,121
Less accumulated depreciation and amortization	(14,022,440)	(2,387,000)	—	—	(16,409,440)
Net property and equipment	<u>\$19,585,792</u>	<u>\$2,673,889</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$22,259,681</u>

**NOTE 6 PROPERTY LEASED TO OTHERS**

The Medical Center has entered into three leasing arrangements to lease space in the Medical Arts Building to physicians. The first lease requires annual rentals of \$17,500 through December 2008 and grants the lessee the option to purchase at any time. The second lease requires annual rentals of \$30,330 through December 2011. The third lease requires annual rentals of \$29,286 through January 2009.

The Medical Center also leases a portion of its building to a corporation which provides dialysis services. This lease agreement requires annual rents of \$41,975 through January 2008. Either party may cancel this lease on February 1 of each year by giving sixty days notice.

The Medical Center has also entered into an arrangement to lease the land upon which the Medical Arts Building was erected to the developer for a term of ninety-nine years beginning January 1, 1993. The lease calls for annual rentals of \$6,264 with the rental rate being adjusted every ten years to reflect any changes in the Consumer Price Index.

**NOTE 7 LONG-TERM DEBT**

Long-term debt at June 30, 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Hospital Revenue Refunding Notes, Series 2003	\$2,145,000	\$2,850,000
Obligations under capital leases	1,964,790	1,943,882
Other	2,446	7,104
	4,112,236	4,800,986
Less deferred financing costs	57,423	92,372
Less current maturities	1,514,259	1,328,062
Long-term debt, net of current maturities	<u>\$2,540,554</u>	<u>\$3,380,552</u>

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

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

**Hospital Revenue Refunding Notes, Series 2003**

The City of Newton, Iowa, Hospital Revenue Refunding Notes, Series 2003, dated May 1, 2003, were issued for the purpose of refinancing the Series 1993 and 2000 Hospital Revenue Capital Loan Notes. The Notes, which were issued by the City of Newton, are payable solely from the net revenues of the Medical Center, and do not constitute a general obligation of the City.

The serial notes are due in semiannual installments of \$230,000 to \$365,000 through June 2008 with interest payable semiannually at 1.70 to 2.75 percent.

Special funds required by the 2003 Notes are described below:

The Revenue Note Sinking Fund is a fund to which monthly transfers are to be made equal to 1/6 of the next principal and interest payment due.

The Debt Service Reserve Fund is a fund maintained according to the resolution which required an initial deposit of \$285,000. If insufficient money is available in the Sinking Fund to satisfy interest and principal payments, money in the Reserve Fund shall be utilized. Such monies will be replaced in a timely manner until the Fund has been restored to the required amount.

The Loan Agreement contains a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

**Obligations under capital leases**

The Medical Center leases various medical equipment and information system hardware and software under capital lease agreements. The property cost and the related liability under each capital lease was recorded at the present value of the future minimum payments due under the lease, as determined with discount rates ranging from 1.3 to 7.6 percent.

The leases require various monthly payments of \$2,345 to \$16,262, with lease terms expiring between July 2004 and December 2008. At June 30, 2004, the aggregate monthly payment for all capital leases is \$78,195.

Principal and interest maturities of the debt outstanding at June 30, 2004 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$1,514,259	\$ 155,320	\$1,669,579
2006	1,032,073	92,129	1,124,202
2007	859,987	51,068	911,055
2008	673,367	18,596	691,963
2009	<u>32,550</u>	<u>639</u>	<u>33,189</u>
Totals	<u>\$4,112,236</u>	<u>\$ 317,752</u>	<u>\$4,429,988</u>

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

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

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Notes	\$2,850,000	\$ —	\$ 705,000	\$2,145,000	\$ 725,000
Obligations under capital leases	1,943,882	770,941	750,033	1,964,790	786,813
Other	<u>7,104</u>	<u>—</u>	<u>4,658</u>	<u>2,446</u>	<u>2,446</u>
Totals	<u>\$4,800,986</u>	<u>\$ 770,941</u>	<u>\$1,459,691</u>	<u>\$4,112,236</u>	<u>\$1,514,259</u>

A summary of changes in long-term debt for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Notes	\$3,375,306	\$2,850,000	\$3,375,306	\$2,850,000	\$ 705,000
Obligations under capital leases	146,370	2,222,270	424,758	1,943,882	618,404
Other	<u>28,595</u>	<u>—</u>	<u>21,491</u>	<u>7,104</u>	<u>4,658</u>
Totals	<u>\$3,550,271</u>	<u>\$5,072,270</u>	<u>\$3,821,555</u>	<u>\$4,800,986</u>	<u>\$1,328,062</u>

**NOTE 8 MALPRACTICE CLAIMS**

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

The Medical Center is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Medical Center.

Incidents occurring through June 30, 2004 may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 DEFINED BENEFIT PENSION PLAN (continued)**

Plan members are required to contribute 3.70% of their annual salary and the Medical Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$757,795, \$653,324 and \$589,743, respectively, equal to the required contributions for each year.

**NOTE 10 SELF-INSURANCE**

The Medical Center has a self-insurance program for hospitalization and medical coverage for its employees. The Medical Center limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$55,000 per year. The Medical Center's aggregate annual loss limitation is limited to 120% of estimated claims each year. The Medical Center's expense under the self-insurance program for the years ended June 30, 2004 and 2003 was \$1,507,995 and \$1,230,964, respectively.

Cumulative amounts estimated to be payable by the Medical Center with respect to pending and potential claims for all years in which the Medical Center is liable under its self-insurance program have been accrued as liabilities. Such accrued liabilities are necessarily based on estimates; thus, the Company's ultimate liability may exceed or be less than amounts accrued.

**NOTE 11 CHARITY CARE**

The Medical Center 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 and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	<b>2004</b>	<b>2003</b>
Charges foregone, based on established rates	\$ <u>137,688</u>	\$ <u>24,068</u>
Equivalent percentage of charity care patients to all patients served	<u>.3%</u>	<u>.1%</u>

**NOTE 12 RELATED PARTY TRANSACTIONS**

Because of the existence of common trustees and other factors, Skiff Medical Center and Skiff Medical Center Foundation are related parties. The Foundation was formed to promote the recruitment of medical personnel to practice in Jasper County and the Medical Center for the purpose of maintaining and improving the medical-health care services available to all residents of Jasper County, Iowa. Payments of \$55,000 were made to the Foundation for the year ended June 30, 2003, and are included in operating expenses. The Foundation contributed \$400,000 to the Medical Center during the year ended June 30, 2004 for the Medical Center's hospice wing project. Additionally, an unrestricted contribution received by the Medical Center in the amount of \$150,932 was transferred to the Foundation during the year ended June 30, 2003 and has been included in nonoperating losses.

**NOTE 13 BUDGET AND BUDGETARY ACCOUNTING**

The Board of Trustees annually adopts a budget and presents it to the City Council for inclusion in the City's annual budget, which is adopted following required public notice and hearings for all funds. The City's annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Medical Center prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major difference between budget and GAAP bases is that interest expense is included in operating expenditures on the budget basis.

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 BUDGET AND BUDGETARY ACCOUNTING (continued)**

The following is a comparison of reported expenses to budget:

	<u>Operating expenses (GAAP basis)</u>	<u>Budget basis adjustment</u>	<u>Budget basis</u>	<u>Budget</u>
Year ended June 30, 2004 totals	\$27,638,343	\$ 208,681	\$27,847,024	\$36,000,000

**NOTE 14 MEDICAL CENTER RISK MANAGEMENT**

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 15 NONEXPENDABLE PERMANENT ENDOWMENT**

Nonexpendable permanent endowment consists of contributions from the Geisler Penquite Charitable Corporation. The funds are currently invested in a certificate of deposit. The interest from the funds held is to be used for hospice programs as the Board of Trustees shall direct.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

To the Board of Trustees  
Skiff Medical Center  
Newton, Iowa

Our report on our audits of the basic financial statements of Skiff Medical Center for June 30, 2004 and 2003 and the years then ended appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 6, 2004

**Skiff Medical Center  
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$3,590,421	\$3,116,218	57.7%	45.5%
31 - 60 days	1,004,921	978,465	16.1	14.3
61 - 90 days	416,514	1,078,798	6.7	15.8
91 - 120 days	304,839	700,034	4.9	10.2
121 - 365 days	701,195	734,318	11.3	10.7
Over one year	<u>207,063</u>	<u>238,608</u>	<u>3.3</u>	<u>3.5</u>
Totals	<u>6,224,953</u>	<u>6,846,441</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,097,076	1,094,022		
Medicaid	208,290	194,500		
Blue Cross	217,000	247,000		
Other	-	2,600		
Uncollectibles	<u>423,653</u>	<u>432,628</u>		
Total allowances	<u>1,946,019</u>	<u>1,970,750</u>		
Totals	<u>\$4,278,934</u>	<u>\$4,875,691</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

	<u>Amount</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>BALANCE</b> , beginning	\$ 432,628	\$ 515,642		
<b>ADD</b>				
Provision for bad debts	1,101,397	541,693	4.3%	2.2%
Recoveries of accounts previously written off	331,603	334,215	1.3	1.4
<b>LESS</b>				
Accounts written off	<u>(1,441,975)</u>	<u>(958,922)</u>	5.6	4.0
<b>BALANCE</b> , ending	<u>\$ 423,653</u>	<u>\$ 432,628</u>		
<b>COLLECTION FEES</b>	<u>\$ 18,853</u>	<u>\$ 13,372</u>	.1	.1

**Skiff Medical Center  
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>DAILY PATIENT SERVICES</b>		
Medical and surgical	\$ 3,816,056	\$ 3,407,925
Obstetric	442,799	345,150
Coronary care	450,511	263,120
Swing bed		
Skilled care	313,400	254,400
Nursery	218,940	181,640
	<u>5,241,706</u>	<u>4,452,235</u>
<b>OTHER NURSING SERVICES</b>		
Operating rooms	5,467,563	4,703,855
Recovery rooms	815,428	800,119
Delivery and labor rooms	306,435	249,821
Emergency services	4,501,500	3,026,907
Home health services		
Skilled nursing	735,685	687,030
Aides	478,716	500,301
Extended home care	33,839	34,525
Other	84,810	48,564
Hospice services	621,135	534,044
	<u>13,045,111</u>	<u>10,585,166</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Laboratory	2,981,005	2,524,699
Blood transfusions	106,953	114,038
Electrocardiology and cardiovascular	937,344	832,149
Sleep disorder	194,381	185,221
Electroencephalography	15,480	18,840
Radiology and mammography	2,086,221	1,989,692
CT scans	1,661,045	1,259,653
Nuclear scans and ultrasound	2,002,112	1,738,546
Magnetic resonance imaging	1,817,513	1,631,655
Pharmacy	3,663,671	3,321,546
Intravenous therapy	294,180	699,279
Anesthesiology	2,669,853	2,398,236
Physical therapy	2,565,299	2,377,008
Occupational therapy	453,921	549,068
Respiratory therapy	1,254,505	1,021,546
Speech therapy	189,911	279,016
Audiology	303,676	202,169
Cardiac rehabilitation	233,132	211,285
Enterostomal	4,221	5,773
Occupational health	43,975	31,928
Alternative health services	28,792	18,056
Monroe clinic	25,082	-
	<u>23,532,272</u>	<u>21,409,403</u>
Totals	41,819,089	36,446,804
Charity care charges foregone, based on established rates	<u>(137,688)</u>	<u>(24,068)</u>
Total gross patient service revenue	41,681,401	36,422,736
Provisions for contractual adjustments and bad debts	<u>(15,987,134)</u>	<u>(12,317,402)</u>
Total net patient service revenue	<u>\$25,694,267</u>	<u>\$24,105,334</u>

<u>Inpatient</u>		<u>Outpatient</u>		<u>In-Home Patient Services</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
\$ 3,673,484	\$ 3,291,020	\$ 142,572	\$ 116,905	\$ -	\$ -
439,700	345,150	3,099	-	-	-
449,818	263,120	693	-	-	-
313,400	254,400	-	-	-	-
218,940	181,640	-	-	-	-
<u>5,095,342</u>	<u>4,335,330</u>	<u>146,364</u>	<u>116,905</u>	<u>-</u>	<u>-</u>
2,192,870	1,723,595	3,274,693	2,980,260	-	-
184,616	174,440	630,812	625,679	-	-
204,040	173,442	102,395	76,379	-	-
904,499	526,896	3,597,001	2,500,011	-	-
-	-	-	-	735,685	687,030
-	-	-	-	478,716	500,301
-	-	-	-	33,839	34,525
-	-	-	-	84,810	48,564
21,300	-	-	-	599,835	534,044
<u>3,507,325</u>	<u>2,598,373</u>	<u>7,604,901</u>	<u>6,182,329</u>	<u>1,932,885</u>	<u>1,804,464</u>
1,028,823	870,253	1,952,182	1,654,446	-	-
67,593	74,887	39,360	39,151	-	-
242,882	220,817	694,462	611,332	-	-
-	3,308	194,381	181,913	-	-
1,288	1,823	14,192	17,017	-	-
265,412	252,732	1,820,809	1,736,960	-	-
342,862	263,141	1,318,183	996,512	-	-
129,288	157,392	1,872,824	1,581,154	-	-
110,704	80,248	1,706,809	1,551,407	-	-
1,687,169	1,447,781	1,976,502	1,873,765	-	-
213,195	517,167	80,985	182,112	-	-
742,093	627,709	1,927,760	1,770,527	-	-
225,435	220,895	2,188,222	2,031,135	151,642	124,978
61,314	81,123	346,810	400,089	45,797	67,856
1,061,167	838,901	193,338	182,645	-	-
17,182	12,205	171,215	263,651	1,514	3,160
8,979	10,104	294,697	192,065	-	-
-	-	233,132	211,285	-	-
114	-	4,107	5,773	-	-
-	-	43,975	31,928	-	-
-	-	28,792	18,056	-	-
-	-	25,082	-	-	-
<u>6,205,500</u>	<u>5,680,486</u>	<u>17,127,819</u>	<u>15,532,923</u>	<u>198,953</u>	<u>195,994</u>
<u>\$14,808,167</u>	<u>\$12,614,189</u>	<u>\$24,879,084</u>	<u>\$21,832,157</u>	<u>\$ 2,131,838</u>	<u>\$ 2,000,458</u>

**Skiff Medical Center**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Contractual adjustments		
Medicare	\$10,081,254	\$ 8,021,968
Medicaid	1,957,649	1,239,844
Blue Cross	2,366,471	1,994,582
Commercial Insurance	386,249	468,142
Provision for bad debts	1,101,397	541,693
Administrative adjustments	<u>94,114</u>	<u>51,173</u>
 Totals	 <u>\$15,987,134</u>	 <u>\$12,317,402</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Revenues for expenses of home health services		
Jasper County	\$ 138,200	\$ 128,000
Iowa State Department of Health and others	<u>146,481</u>	<u>126,799</u>
Subtotals	284,681	254,799
 Assisted living	 203,300	 305,260
Contributions for expenses of hospice services	69,465	70,901
Cafeteria and diet instructions	174,617	150,995
Facilities management	216,996	159,663
Lifeline rental	57,196	43,556
Other	146,146	39,895
Pharmacy, employee, net	(4,062)	(2,428)
Respite	39,990	50,995
Dietary consulting services	40,773	31,863
Other consulting services	15,036	12,364
Clinic rental, net of expense	<u>126,670</u>	<u>137,724</u>
 Totals	 <u>\$1,370,808</u>	 <u>\$1,255,587</u>

**Skiff Medical Center  
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>ADMINISTRATIVE</b>		
Salaries	\$ 580,402	\$ 561,915
Payroll taxes	76,921	72,346
Supplies and expenses	<u>23,236</u>	<u>22,249</u>
	<u>680,559</u>	<u>656,510</u>
<b>MEDICAL AND SURGICAL</b>		
Salaries	1,533,449	1,473,475
Payroll taxes	199,707	190,501
Purchased services	333,353	207,153
Supplies and expenses	<u>136,442</u>	<u>158,916</u>
	<u>2,202,951</u>	<u>2,030,045</u>
<b>OBSTETRIC, NURSERY, DELIVERY AND LABOR</b>		
Salaries	416,709	360,436
Payroll taxes	54,435	46,116
Purchased services	65,819	14,202
Supplies and expenses	<u>52,591</u>	<u>64,534</u>
	<u>589,554</u>	<u>485,288</u>
<b>CORONARY CARE</b>		
Salaries	252,014	140,138
Payroll taxes	33,530	18,050
Purchased services	54,578	33,735
Supplies and expenses	<u>21,639</u>	<u>34,998</u>
	<u>361,761</u>	<u>226,921</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	682,047	596,497
Payroll taxes	89,555	79,002
Purchased services	15,351	-
Supplies and expenses	<u>940,741</u>	<u>935,812</u>
	<u>1,727,694</u>	<u>1,611,311</u>
<b>CENTRAL SERVICES</b>		
Salaries	28,269	26,381
Payroll taxes	3,629	3,505
Supplies and expenses	<u>72,720</u>	<u>40,830</u>
	<u>104,618</u>	<u>70,716</u>
<b>EMERGENCY SERVICES</b>		
Salaries	1,111,899	604,834
Payroll taxes	136,608	78,774
Professional fees	455,391	462,029
Supplies and expenses	<u>80,453</u>	<u>89,322</u>
	<u>1,784,351</u>	<u>1,234,959</u>
<b>HOME HEALTH SERVICES</b>		
Salaries	1,011,277	916,658
Payroll taxes	131,757	118,140
Purchased services	43,471	45,085
Supplies and expenses	<u>107,388</u>	<u>121,390</u>
	<u>1,293,893</u>	<u>1,201,273</u>
<b>HOSPICE SERVICES</b>		
Salaries	201,462	127,017
Payroll taxes	26,256	16,788
Supplies and expenses	<u>235,212</u>	<u>160,533</u>
	<u>462,930</u>	<u>304,338</u>
Totals	<u>\$9,208,311</u>	<u>\$7,821,361</u>

**Skiff Medical Center  
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>LABORATORY</b>		
Salaries	\$ 556,858	\$ 492,152
Payroll taxes	71,250	63,431
Professional fees	191,332	157,509
Blood	124,487	105,907
Supplies and expenses	<u>310,123</u>	<u>304,073</u>
	<u>1,254,050</u>	<u>1,123,072</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries	15,883	22,693
Payroll taxes	2,068	2,982
Professional fees	18,520	12,683
Supplies and expenses	<u>5,692</u>	<u>9,742</u>
	<u>42,163</u>	<u>48,100</u>
<b>SLEEP DISORDER</b>		
Salaries	953	1,362
Payroll taxes	125	179
Professional fees	<u>72,210</u>	<u>60,840</u>
	<u>73,288</u>	<u>62,381</u>
<b>ELECTROENCEPHALOGRAPHY</b>		
Professional fees	<u>2,940</u>	<u>4,340</u>
<b>RADIOLOGY</b>		
Salaries	722,244	649,638
Payroll taxes	94,626	83,722
Supplies and expenses	456,084	384,076
Professional fees	<u>23,135</u>	<u>26,311</u>
	<u>1,296,089</u>	<u>1,143,747</u>
<b>NUCLEAR SCANS AND ULTRASOUND</b>		
Purchased services	89,924	317,172
Supplies and expenses	<u>50,045</u>	<u>2,400</u>
	<u>139,969</u>	<u>319,572</u>
<b>PHARMACY</b>		
Salaries	271,365	242,420
Payroll taxes	35,205	30,653
Drugs	741,562	715,726
Intravenous solutions	3,808	42,962
Supplies and expenses	<u>24,430</u>	<u>53,284</u>
	<u>1,076,370</u>	<u>1,085,045</u>
<b>ANESTHESIOLOGY</b>		
Salaries	478,460	459,306
Payroll taxes	51,171	53,361
Professional fees	36,861	-
Supplies and expenses	<u>53,572</u>	<u>45,838</u>
	<u>620,064</u>	<u>558,505</u>
<b>PHYSICAL THERAPY</b>		
Salaries	915,594	766,461
Payroll taxes	118,734	97,167
Supplies and expenses	<u>115,065</u>	<u>147,408</u>
	<u>1,149,393</u>	<u>1,011,036</u>

**Skiff Medical Center**  
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries	\$ 127,757	\$ 180,250
Payroll taxes	16,914	23,985
Supplies and expenses	<u>31,759</u>	<u>27,052</u>
	<u>176,430</u>	<u>231,287</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	230,968	210,482
Payroll taxes	29,483	26,837
Supplies and expenses	<u>58,361</u>	<u>61,552</u>
	<u>318,812</u>	<u>298,871</u>
<b>SPEECH THERAPY</b>		
Salaries	67,395	70,759
Payroll taxes	8,946	9,221
Supplies and expenses	<u>4,195</u>	<u>6,802</u>
	<u>80,536</u>	<u>86,782</u>
<b>AUDIOLOGY</b>		
Salaries	78,876	55,162
Payroll taxes	9,949	6,815
Supplies and expenses	<u>136,623</u>	<u>81,062</u>
	<u>225,448</u>	<u>143,039</u>
<b>CARDIAC REHABILITATION</b>		
Salaries	91,331	89,519
Payroll taxes	12,222	10,906
Supplies and expenses	<u>8,386</u>	<u>8,127</u>
	<u>111,939</u>	<u>108,552</u>
<b>ENTEROSTOMAL</b>		
Salaries	45,640	38,607
Payroll taxes	6,021	5,031
Professional fees	<u>211</u>	<u>290</u>
	<u>51,872</u>	<u>43,928</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries	72,883	81,194
Payroll taxes	9,142	10,195
Physicians' fees	33,611	23,175
Supplies and expenses	<u>15,319</u>	<u>11,910</u>
	<u>130,955</u>	<u>126,474</u>
<b>ALTERNATIVE HEALTH SERVICES</b>		
Salaries	40,519	30,647
Payroll taxes	5,259	4,177
Supplies and expenses	<u>2,116</u>	<u>6,893</u>
	<u>47,894</u>	<u>41,717</u>
<b>MONROE CLINIC</b>		
Salaries	50,287	-
Payroll taxes	5,765	-
Supplies and expenses, net	<u>56,563</u>	<u>-</u>
	<u>112,615</u>	<u>-</u>

**Skiff Medical Center**  
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>ASSISTED LIVING</b>		
Salaries	\$ 136,921	\$ 137,069
Payroll taxes	17,248	17,473
Supplies and expenses	<u>13,112</u>	<u>14,549</u>
	<u>167,281</u>	<u>169,091</u>
<b>SOCIAL SERVICES</b>		
Salaries	144,848	142,991
Payroll taxes	19,478	18,666
Supplies and expenses	<u>1,353</u>	<u>1,909</u>
	<u>165,679</u>	<u>163,566</u>
<b>HEALTH INFORMATION MANAGEMENT</b>		
Salaries	356,395	346,251
Payroll taxes	46,442	44,868
Supplies and expenses	<u>103,340</u>	<u>99,688</u>
	<u>506,177</u>	<u>490,807</u>
Totals	<u>\$7,749,964</u>	<u>\$7,259,912</u>

**Skiff Medical Center  
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>NUTRITION/WELLNESS</b>		
Salaries	\$ 622,953	\$ 550,350
Payroll taxes	79,157	68,362
Food	278,583	245,299
Supplies and expenses	<u>33,760</u>	<u>46,662</u>
	<u>1,014,453</u>	<u>910,673</u>
<b>OPERATION OF PLANT</b>		
Salaries	349,522	325,289
Payroll taxes	46,505	42,174
Repairs and maintenance	198,674	207,862
Utilities	562,080	407,477
Supplies and expenses	<u>11,194</u>	<u>21,148</u>
	<u>1,167,975</u>	<u>1,003,950</u>
<b>HOUSEKEEPING</b>		
Salaries	375,202	341,603
Payroll taxes	49,401	45,014
Supplies and expenses	<u>51,885</u>	<u>53,870</u>
	<u>476,488</u>	<u>440,487</u>
<b>LAUNDRY AND LINEN</b>		
Salaries	114,877	108,064
Payroll taxes	14,672	13,713
Supplies and expenses	<u>26,484</u>	<u>21,889</u>
	<u>156,033</u>	<u>143,666</u>
<b>OUTREACH</b>		
Salaries	52,830	6,333
Payroll taxes	7,705	897
Supplies and expenses	<u>9,781</u>	<u>3,354</u>
	<u>70,316</u>	<u>10,584</u>
 Totals	 <u>\$2,885,265</u>	 <u>\$2,509,360</u>

**Skiff Medical Center  
FISCAL AND ADMINISTRATIVE SERVICE  
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
Salaries	\$1,642,511	\$1,476,600
Payroll taxes	203,240	181,733
Communications	76,374	74,265
Supplies and purchased services	595,912	669,476
Professional fees	230,588	113,621
Physician recruitment	36,003	77,096
Training and education	16,952	42,711
Collection fees	18,853	13,372
Dues, subscriptions and licenses	57,210	44,776
Other expense	<u>38,279</u>	<u>37,991</u>
	<u>2,915,922</u>	<u>2,731,641</u>
<b>UNASSIGNED EXPENSES</b>		
Employee benefits		
Workers' compensation insurance	198,701	88,484
Health insurance	1,507,995	1,230,964
Unemployment compensation	4,043	3,447
Long-term disability insurance	43,482	38,756
Life insurance	5,797	5,387
Other	3,235	3,413
Insurance		
Liability and property insurance	<u>189,673</u>	<u>152,501</u>
	<u>1,952,926</u>	<u>1,522,952</u>
Totals	<u>\$4,868,848</u>	<u>\$4,254,593</u>

**Skiff Medical Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>PATIENT DAYS</b>		
Medical and surgical	5,531	5,578
Obstetric	630	585
Coronary care	439	286
Swing bed, skilled care	1,206	1,060
Nursery	534	478
Hospice	<u>90</u>	<u>—</u>
Totals	<u>8,430</u>	<u>7,987</u>
<b>ASSISTED LIVING UNIT DAYS</b>	<u>1,551</u>	<u>2,336</u>
<b>RESPITE DAYS</b>	<u>258</u>	<u>329</u>
<b>ADMISSIONS</b>		
Acute	2,001	1,881
Swing bed	<u>257</u>	<u>207</u>
Totals	<u>2,258</u>	<u>2,088</u>
<b>DISCHARGES</b>		
Acute	1,994	1,882
Swing bed	<u>262</u>	<u>207</u>
Totals	<u>2,256</u>	<u>2,089</u>
<b>AVERAGE LENGTH OF STAY</b>		
Acute	3.31	3.43
Swing bed	4.60	5.12
<b>BEDS, ACUTE</b>	68	68
<b>OCCUPANCY PERCENT, ACUTE</b>	26.5%	26.0%
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$70,203</u>	<u>\$66,042</u>
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR</b>	<u>61</u>	<u>74</u>

**INDEPENDENT AUDITOR'S 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**

To the Board of Trustees  
Skiff Medical Center  
Newton, Iowa

We have audited the financial statements of Skiff Medical Center as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Skiff Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Skiff Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the City of Newton, Iowa and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 6, 2004

**Skiff Medical Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part I—Findings Related to the Financial Statements**

No matters regarding reportable conditions, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Skiff Medical Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

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

**04-II-A OFFICIAL DEPOSITORIES**

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

**04-II-B CERTIFIED BUDGET**

Based on a comparison of budget basis expenditures with budgeted expenditures, it appears the Medical Center did not exceed its budget for the year ended June 30, 2004.

**04-II-C QUESTIONABLE EXPENDITURES**

No questionable expenditures of Medical Center funds were noted.

**04-II-D TRAVEL EXPENSES**

No expenditures of Medical Center funds for travel expenses of spouses of Medical Center officials and/or employees were noted.

**04-II-E BUSINESS TRANSACTIONS**

No business transactions were found between the Medical Center and Medical Center officials and/or employees.

**04-II-F BOARD MINUTES**

No transactions were found that we believe should have been approved in the Board minutes but were not.

**04-II-G DEPOSITS AND INVESTMENTS**

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Medical Center's investment policy.