

**Skiff Medical Center
Newton, Iowa**

FINANCIAL REPORT

June 30, 2005

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**Skiff Medical Center
OFFICIALS**

Term expires

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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, 2005 and 2004, 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 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, 2005 and 2004, 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 5, 2005 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.

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 5, 2005

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, 2005, 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 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 increased by \$1,431,000 to \$34,218,000 in Fiscal Year (FY) '05, following a decrease of \$447,000 in FY '04.
- Total assets whose use is limited increased \$2,054,000 during FY '05, following a \$2.2 million decrease in FY '04.
- Total property and equipment, net of depreciation, decreased by \$1,018,000 in FY '05 and increased by \$1,974,000 in FY '04.
- Fund equity increased by \$1,666,000 in FY '05 and decreased by \$81,000 in FY '04.
- Net patient service revenue increased by \$3,841,000 to \$29,535,000 during FY '05, primarily due to an increase in utilization. The increase for fiscal year '04 was \$1,589,000.
- Operating expenses increased by \$1,475,000 in FY '05 and by \$3,406,000 in FY '04.
- Total margin for FY 2005 was 5.4%, compared to (0.3%) for FY 2004.

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 increase in revenue from outpatient visits was driven by volume increases in the operating room, laboratory and radiology during FY '05. Provision for bad debt decreased slightly between FY '04 and FY '05 from \$1,101,000 to \$933,000.

The overall expense increase during FY '05 was driven by increases in salary and benefit expense, which represents over 60% of our total expenses. The shortage of healthcare workers continues to drive market increases in salaries. Although the hospital utilizes group purchasing arrangements to control their supply expense, this expense increased due to increased patient volumes. Significant investments in equipment and buildings in recent years caused depreciation expense to increase 8%.

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 – are 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, 2005, 2004 and 2003, are presented in Table 1 below.

Table 1
Condensed Balance Sheets
(in Thousands)

	June 30, 2005	June 30, 2004	June 30, 2003	FY '04 to FY' 05 \$ Change	FY '04 to FY' 05 % Change	FY '03 to FY' 04 \$ Change	FY '03 to FY' 04 % Change
Current and other assets	\$11,002	\$8,552	\$10,974	\$2,450	28.6	(\$2,422)	(22.1)
Capital assets	23,216	24,234	22,260	(1,018)	(4.2)	1,974	8.9
Total Assets	\$34,218	\$32,787	\$33,233	\$1,431	4.4	(\$447)	(1.3)
Long-term debt outstanding	\$2,534	\$2,541	\$3,381	(\$7)	(0.3)	(\$840)	(24.8)
Other liabilities	3,596	3,823	3,349	(227)	(5.9)	474	14.2
Total liabilities	\$6,130	\$6,364	\$6,730	(\$234)	(3.7)	(\$366)	(5.4)
Invested in capital assets, net of related debt	\$19,445	\$20,179	\$17,551	(\$734)	(3.6)	\$2,628	15.0
Unrestricted	8,261	5,843	8,556	2,417	41.4	(2,713)	(31.7)
Restricted	382	400	397	(18)	(4.4)	3	0.8
Total net assets	\$28,088	\$26,422	\$26,504	\$1,666	6.3	(\$81)	(0.3)

As can be seen in Table 1, net assets increased by \$1,666,000 to \$28.1 million in FY 2005. Net assets at the end of FY '04 and FY '03 were \$26.4 million and \$26.5 million, respectively. The FY '05 increase was due to increases in cash reserves held for future cash flow needs.

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, 2005, 2004 and 2003.

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

	Year ended June 30,		
	2005	2004	2003
Net patient service revenue	29,535	25,694	24,105
Other operating revenue	1,304	1,371	1,256
Total revenue	\$30,839	\$27,065	\$25,361
Operating expenses:			
Nursing service	10,071	9,208	7,821
Other professional service	7,755	7,750	7,260
General service	3,086	2,885	2,509
Fiscal and administrative service and unassigned expenses	5,038	4,869	4,255
Provision for depreciation and amortization	3,163	2,926	2,387
Total operating expenses	29,113	27,638	24,232
Operating income (loss)	1,726	(573)	1,129
Non-operating gain (loss)	(524)	90	(240)
Excess (deficiency) of revenues over expenses before contributions	1,202	(483)	889
Contributions	464	402	2
Changes in fund equity	1,666	(81)	891
Total fund equity, beginning	26,422	26,504	25,612
Total fund equity, ending	\$28,088	\$26,422	\$26,504

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2005, June 30 2004 and June 30, 2003.

Volume: Inpatient acute admissions (excluding normal newborns) for fiscal year 2005 were 2,219 compared to 2,001 in fiscal year 2004 and 1,881 in fiscal year 2003. The average length of stay has remained fairly steady, ranging between 3.29 and 3.43 during fiscal years 2003 through 2005. Total patient days have increased from 7,987 to 9,989 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 speech therapy.

Net Patient Service Revenue: Due to rate increases and the increase in patient volumes discussed above, net patient service revenues climbed by \$3.8 million, or 14.9% in comparison to fiscal year 2004. Outpatient revenue represented 57% of our gross patient service revenue and experienced 15% growth for FY '05 and 14% growth for FY '04. Inpatient revenue, representing 38% of our gross patient service revenue, experienced growth of 28% for FY '05 and 17% for FY '04. 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, 2005, 2004 and 2003.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2005	2004	2003
Medicare	44.6%	44.3%	44.3%
Wellmark	26.1%	26.4%	27.1%
Commercial	13.8%	13.9%	14.5%
Medicaid	7.3%	7.3%	6.8%
Self Pay	3.6%	4.3%	4.5%
All other	4.6%	3.8%	2.8%
Total	100.0%	100.0%	100.0%

Other Operating Revenue: The decrease of \$67,000 in FY '05 was driven by the closure of the assisting living unit in October 2004. Other operating revenue increased by \$115,000 and \$118,000 in FY '04 and '03 respectively due to increases in 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 \$862,000, or 9.4% in FY '05, and \$1,387,000, or 18%, in FY '04 nursing service expenses.

Other Professional Service Expenses: Expenses in this category were relatively flat during FY '05 after a prior year increase of \$490,000, which was caused by market-driven salary increases for healthcare workers and increased supply costs during FY '04. 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 '05 was \$201,000 or 7% in FY '05 and \$376,000 or 15% in FY '04. The increased expenses for FY '05 primarily reflect increased utilities costs.

Fiscal and Administrative Expenses: During FY '05, the fiscal and administrative expenses increased \$170,000, or 3.5% after a \$614,000, or 14%, increase in FY'04. Higher health insurance and other insurance expenses has been the primary driver for these increases.

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 \$1.1 million. During FY '05 and FY'04, a total of \$860,000 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 loss of \$524,000 in FY '05 and a non-operating gain of \$90,000 in FY '04. Included in this amount are transfers to the Skiff Medical Center Foundation, 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 increased in value \$27,000 during FY '05 and \$272,000 in fiscal year 2004. The investment is adjusted quarterly for increases or decreases in fair market value. 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 2005, the Medical Center had invested \$23.2 million in capital assets as shown in Table 5. The \$1.975 million decrease in major movable equipment during FY '05 was the result of removal of obsolete assets during the fiscal year. Assets held under capital lease obligations increased by \$1.1 million due to the acquisition 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, 2005, 2004 and 2003.

Table 5
Capital Assets
(in Thousands)

	2005	2004	2003	Change from '04 to '05	Change from '03 to '04
Land	\$2,073	\$1,947	\$1,947	\$127	\$0
Land improvements	2,198	2,179	2,179	19	0
Buildings	19,854	19,307	16,787	547	2,520
Fixed equipment	6,406	6,077	5,778	329	299
Major movable equipment	7,977	9,952	9,110	(1,975)	842
Construction in progress	76	582	302	(505)	280
Assets held under capital lease obligations	4,536	3,457	2,567	1,079	890
Subtotal	43,120	43,500	38,669	(380)	4,830
Less accumulated depreciation	(18,005)	(17,947)	(15,822)	(58)	(2,125)
Less accumulated amortization on assets held under capital leases	(1,899)	(1,318)	(587)	(581)	(731)
Property, plant and equipment, net	\$23,216	\$24,234	\$22,260	(\$1,018)	\$1,974

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Medical Center had \$1.42 million in short- and long-term debt related to Hospital Revenue Bonds. This has decreased from \$2.15 million at the end of fiscal year 2004, which was the amount of principal payments on outstanding debt for fiscal year 2005. 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 41% of the Medical Center's total liabilities as of June 30, 2005, up slightly from 40% at the prior fiscal year-end.

Capital Leases

At year-end, the Medical Center had \$2.4 million in short- and long-term capital lease obligations. This has increased \$418,000 from fiscal year-end 2004. 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 represent 39% of the Medical Center's total liabilities as of fiscal year-end '05, compared to 31% at June 30, 2004.

CONTACTING THE MEDICAL CENTER'S FINANCE DEPARTMENT

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	
	2005	2004
CURRENT ASSETS		
Cash	\$ 677,301	\$ 597,751
Assets whose use is limited, required for current liabilities	362,140	582,845
Patient receivables, less allowances for contractual adjustments and uncollectibles	4,457,570	4,278,934
Inventories	443,701	431,719
Prepaid expenses	209,186	144,102
Other current assets	<u>117,328</u>	<u>56,228</u>
Total current assets	<u>6,267,226</u>	<u>6,091,579</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	133,774	58,049
Certificates of deposit	2,600,000	-
Marketable equity securities	1,958,495	2,585,594
Accrued interest receivable	<u>22,745</u>	<u>262</u>
	<u>4,715,014</u>	<u>2,643,905</u>
Restricted under loan agreement		
Cash, revenue note sinking fund	77,140	96,724
Certificate of deposit, debt service reserve fund	<u>285,000</u>	<u>285,000</u>
	<u>362,140</u>	<u>381,724</u>
Restricted by donors for specific purpose		
Certificate of deposit	<u>20,000</u>	<u>18,000</u>
Total assets whose use is limited	5,097,154	3,043,629
Less current portion	<u>362,140</u>	<u>582,845</u>
Noncurrent assets whose use is limited	<u>4,735,014</u>	<u>2,460,784</u>
PROPERTY AND EQUIPMENT	43,120,083	43,499,609
Less accumulated depreciation and amortization	<u>19,904,339</u>	<u>19,265,464</u>
Total property and equipment	<u>23,215,744</u>	<u>24,234,145</u>
 Totals	 <u>\$34,217,984</u>	 <u>\$32,786,508</u>

See Notes to Financial Statements.

	LIABILITIES AND FUND EQUITY	
	June 30	
	2005	2004
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,237,065	\$ 1,514,259
Accounts payable		
Trade	490,836	303,710
Construction	-	201,121
Accrued payroll and payroll taxes	626,129	562,665
Accrued employee benefits	1,127,648	1,121,710
Estimated third-party payor settlements	<u>114,652</u>	<u>120,000</u>
Total current liabilities	<u>3,596,330</u>	<u>3,823,465</u>
LONG-TERM DEBT		
Revenue notes payable, net of deferred financing costs	1,388,019	2,087,577
Obligations under capital leases	2,382,596	1,964,790
Other	-	2,446
	<u>3,770,615</u>	<u>4,054,813</u>
Less current maturities	<u>1,237,065</u>	<u>1,514,259</u>
Total long-term debt	<u>2,533,550</u>	<u>2,540,554</u>
COMMITMENT AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	19,445,129	20,179,332
Restricted		
Nonexpendable permanent endowment	20,000	18,000
Under loan agreement	362,140	381,724
Unrestricted	<u>8,260,835</u>	<u>5,843,433</u>
Total fund equity	<u>28,088,104</u>	<u>26,422,489</u>
Totals	<u>\$34,217,984</u>	<u>\$32,786,508</u>

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

	Year ended June 30	
	2005	2004
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2005 \$932,559; 2004 \$1,101,397	\$29,534,931	\$25,694,267
OTHER REVENUE	<u>1,303,880</u>	<u>1,370,808</u>
Total revenue	<u>30,838,811</u>	<u>27,065,075</u>
OPERATING EXPENSES		
Nursing service	10,070,724	9,208,311
Other professional service	7,755,400	7,749,964
General service	3,086,016	2,885,265
Fiscal and administrative service and unassigned expenses	5,038,477	4,868,848
Provision for depreciation and amortization	<u>3,162,656</u>	<u>2,925,955</u>
Total operating expenses	<u>29,113,273</u>	<u>27,638,343</u>
Operating income (loss)	<u>1,725,538</u>	<u>(573,268)</u>
NONOPERATING GAINS (LOSSES)		
Investment income	85,565	49,921
Interest expense	(201,364)	(208,681)
Net increase in the fair value of investments	26,821	271,597
Unrestricted contributions	2,000	3,845
Transfers to related foundation	(390,000)	-
(Loss) on disposal of assets	<u>(46,945)</u>	<u>(26,218)</u>
Total nonoperating gains (losses)	<u>(523,923)</u>	<u>90,464</u>
Excess (deficiency) of revenues over expenses before contributions	1,201,615	(482,804)
RESTRICTED CONTRIBUTIONS	<u>464,000</u>	<u>401,700</u>
Change in fund equity	1,665,615	(81,104)
TOTAL FUND EQUITY		
Beginning	<u>26,422,489</u>	<u>26,503,593</u>
Ending	<u>\$28,088,104</u>	<u>\$26,422,489</u>

**Skiff Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$29,350,947	\$26,361,024
Cash paid to suppliers for goods and services	(11,632,675)	(11,707,254)
Cash paid to employees for services	(14,137,407)	(13,231,839)
Home health services grants received	289,597	284,681
Contributions received for expenses of hospice services	107,472	69,465
Other operating revenue received	<u>845,711</u>	<u>1,000,308</u>
Net cash provided by operating activities	<u>4,823,645</u>	<u>2,776,385</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	2,000	3,845
Transfers to related foundation	(390,000)	-
Endowments received	<u>2,000</u>	<u>1,700</u>
Net cash provided by (used in) noncapital financing activities	<u>(386,000)</u>	<u>5,545</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,669,511)	(1,459,691)
Interest paid on long-term debt	(176,995)	(175,340)
Acquisition of property and equipment	(1,040,450)	(4,006,685)
Proceeds from sale of property and equipment	8,000	8,750
Contributions received, restricted for purchase of property and equipment	<u>462,000</u>	<u>400,000</u>
Net cash (used in) capital and related financing activities	<u>(2,416,956)</u>	<u>(5,232,966)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,590,000)	(1,588,000)
Proceeds from maturities of certificates of deposit	988,000	4,086,300
Purchase of marketable securities	(1,326,036)	(1,312,722)
Proceeds from sale of marketable securities	1,979,956	1,288,056
Interest and dividends received	<u>63,082</u>	<u>51,522</u>
Net cash provided by (used in) investing activities	<u>(1,884,998)</u>	<u>2,525,156</u>
NET INCREASE IN CASH	135,691	74,120
CASH		
Beginning	<u>752,524</u>	<u>678,404</u>
Ending	<u>\$ 888,215</u>	<u>\$ 752,524</u>

See Notes to Financial Statements.

Skiff Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$1,725,538	\$ (573,268)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,162,656	2,925,955
Change in assets and liabilities		
(Increase) decrease in patient receivables	(178,636)	596,757
(Increase) in inventories	(11,982)	(248,499)
(Increase) in other current assets	(61,100)	(16,354)
(Increase) in prepaid expenses	(65,084)	(39,986)
Increase (decrease) in accounts payable, trade, net of amount related to purchase of property and equipment	188,199	(160,829)
Increase in accrued payroll and payroll taxes	63,464	146,855
Increase in accrued employee benefits	5,938	75,754
Increase (decrease) in net estimated third-party payor settlements	<u>(5,348)</u>	<u>70,000</u>
Net cash provided by operating activities	<u>\$4,823,645</u>	<u>\$2,776,385</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Equipment acquired under capital leases	<u>\$1,359,871</u>	<u>\$ 770,941</u>
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 677,301	\$ 597,751
Assets whose use is limited		
By board for plant replacement and expansion, cash	133,774	58,049
Under loan agreement for revenue bond, sinking fund, cash	<u>77,140</u>	<u>96,724</u>
Total per statement of cash flows	<u>\$ 888,215</u>	<u>\$ 752,524</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's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
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 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.

NOTE 2 CASH AND INVESTMENTS

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

The 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 at June 30, 2005 are as follows:

	<u>Fair value</u>
Marketable equity securities	<u>\$1,958,495</u>

Concentration of Credit Risk. The Medical Center's investment policy limits the amount the Medical Center may invest in any one issuer to 7 percent, and limits the amount the Medical Center may invest in any one sector of the market to 30 percent. More than 5 percent of the Medical Center's investments at June 30, 2005 were invested in common stocks of the following companies: Avon Products 5.8%; Citigroup 5.1%; General Electric 6.6%; IBM 5.6%; and Pepsico 6.9%.

NOTE 3 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Receivable from patients	\$1,250,123	\$1,304,590
Receivable from insurance carriers	2,674,442	2,089,370
Receivable from Medicare	2,361,719	2,281,008
Receivable from Medicaid	<u>639,371</u>	<u>549,985</u>
Total patient receivables	6,925,655	6,224,953
Less allowances for contractual adjustments and uncollectibles	<u>2,468,085</u>	<u>1,946,019</u>
Net patient receivables	<u>\$4,457,570</u>	<u>\$4,278,934</u>

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

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, 2002.

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.

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>
Land	\$ 2,073,418	\$ —	\$ 1,946,652	\$ —
Land improvements	2,198,029	1,291,725	2,178,640	1,170,876
Buildings	19,853,766	7,103,223	19,306,556	6,131,488
Fixed equipment	6,406,062	3,663,734	6,077,249	3,760,285
Major movable equipment including equipment under capital lease				
2005 \$4,535,920; 2004 \$3,456,987	12,512,607	7,845,657	13,408,915	8,202,815
Construction in progress	<u>76,201</u>	<u>—</u>	<u>581,597</u>	<u>—</u>
Totals	<u>\$43,120,083</u>	<u>\$19,904,339</u>	<u>\$43,499,609</u>	<u>\$19,265,464</u>

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to \$2,246,949 and \$2,194,827, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2005 and 2004 amounted to \$915,707 and \$731,128, respectively. Accumulated amortization on these assets totaled \$1,899,000 and \$1,318,239 at June 30, 2005 and 2004, respectively.

Construction in progress at June 30, 2005 consists of various Medical Center information technology projects and renovation projects, with no significant remaining commitments.

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 1,946,652	\$ —	\$ —	\$ 126,766	\$ 2,073,418
Land improvements	2,178,640	—	—	19,389	2,198,029
Buildings	19,306,556	84,089	—	463,121	19,853,766
Fixed equipment	6,077,249	619,437	(372,185)	81,561	6,406,062
Major movable equipment including equipment under capital lease	13,408,915	1,066,355	(2,220,030)	257,367	12,512,607
Construction in progress	<u>581,597</u>	<u>442,808</u>	<u>—</u>	<u>(948,204)</u>	<u>76,201</u>
Totals	43,499,609	2,212,689	(2,592,215)	—	43,120,083
Less accumulated depreciation and amortization	<u>(19,265,464)</u>	<u>(3,162,656)</u>	<u>2,523,781</u>	<u>—</u>	<u>(19,904,339)</u>
Net property and equipment	<u>\$24,234,145</u>	<u>\$ (949,967)</u>	<u>\$ (68,434)</u>	<u>\$ —</u>	<u>\$23,215,744</u>

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 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, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Hospital Revenue Refunding Notes, Series 2003	\$1,420,000	\$2,145,000
Obligations under capital leases	2,382,596	1,964,790
Other	<u>—</u>	<u>2,446</u>
	3,802,596	4,112,236
Less deferred financing costs	31,981	57,423
Less current maturities	<u>1,237,065</u>	<u>1,514,259</u>
Long-term debt, net of current maturities	<u>\$2,533,550</u>	<u>\$2,540,554</u>

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 \$245,000 through June 2008 with interest payable semiannually at 2.00 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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

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 4.1 to 7.6 percent.

The leases require various monthly payments of \$886 to \$16,262, with lease terms expiring between September 2005 and October 2014. At June 30, 2005, the aggregate monthly payment for all capital leases is \$93,861.

Principal and interest maturities of the debt outstanding at June 30, 2005 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$1,237,065	\$ 146,391	\$1,383,456
2007	1,067,343	95,373	1,162,716
2008	873,506	53,033	926,539
2009	242,517	25,248	267,765
2010	87,882	16,566	104,448
2011-2015	<u>294,283</u>	<u>32,209</u>	<u>326,492</u>
Totals	<u>\$3,802,596</u>	<u>\$ 368,820</u>	<u>\$4,171,416</u>

A summary of changes in long-term debt for the year ended June 30, 2005 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	\$2,145,000	\$ —	\$ 725,000	\$1,420,000	\$ 460,000
Obligations under capital leases	1,964,790	1,359,871	942,065	2,382,596	777,065
Other	<u>2,446</u>	<u>—</u>	<u>2,446</u>	<u>—</u>	<u>—</u>
Totals	<u>\$4,112,236</u>	<u>\$1,359,871</u>	<u>\$1,669,511</u>	<u>\$3,802,596</u>	<u>\$1,237,065</u>

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>

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

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. There is also an umbrella policy providing \$5,000,000 of coverage.

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, 2005 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.

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, 2005, 2004 and 2003 were \$806,679, \$757,795 and \$653,324, 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 \$60,000 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, 2005 and 2004 was \$1,530,230 and \$1,507,995, 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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

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, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Charges foregone, based on established rates	\$ <u>331,412</u>	\$ <u>137,688</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</u>	<u>.3%</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. The Foundation contributed \$462,000 and \$400,000 to the Medical Center during the years ended June 30, 2005 and 2004, respectively, for the Medical Center's hospice wing project. Additionally, \$390,000 was transferred from the Medical Center to the Foundation during the year ended June 30, 2005 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.

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, 2005 totals	\$29,113,273	\$ 201,364	\$29,314,637	\$41,000,000

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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

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, 2005 and 2004 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 5, 2005

**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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$4,424,201	\$3,590,421	63.9%	57.7%
31 - 60 days	947,007	1,004,921	13.7	16.1
61 - 90 days	432,768	416,514	6.2	6.7
91 - 120 days	360,804	304,839	5.2	4.9
121 - 365 days	656,313	701,195	9.5	11.3
Over one year	<u>104,562</u>	<u>207,063</u>	<u>1.5</u>	<u>3.3</u>
Totals	<u>6,925,655</u>	<u>6,224,953</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,237,094	1,097,076		
Medicaid	301,867	208,290		
Blue Cross	352,000	217,000		
Other	132,362	-		
Uncollectibles	<u>444,762</u>	<u>423,653</u>		
Total allowances	<u>2,468,085</u>	<u>1,946,019</u>		
Totals	<u>\$4,457,570</u>	<u>\$4,278,934</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
BALANCE , beginning	\$ 423,653	\$ 432,628		
ADD				
Provision for bad debts	932,559	1,101,397	3.2%	4.3%
Recoveries of accounts previously written off	518,441	331,603	1.8	1.3
LESS				
Accounts written off	<u>(1,429,891)</u>	<u>(1,441,975)</u>	4.8	5.6
BALANCE , ending	<u>\$ 444,762</u>	<u>\$ 423,653</u>		
COLLECTION FEES	<u>\$ 38,955</u>	<u>\$ 18,853</u>	.1	.1

**Skiff Medical Center
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
DAILY PATIENT SERVICES		
Medical and surgical	\$ 4,712,297	\$ 3,816,056
Obstetric	541,174	442,799
Coronary care	514,574	450,511
Swing bed		
Skilled care	283,590	313,400
Nursery	262,535	218,940
	<u>6,314,170</u>	<u>5,241,706</u>
OTHER NURSING SERVICES		
Operating rooms	7,503,206	5,467,563
Recovery rooms	984,729	815,428
Delivery and labor rooms	374,390	306,435
Emergency services	4,953,650	4,501,500
Home health services		
Skilled nursing	883,363	735,685
Aides	520,372	478,716
Extended home care	20,844	33,839
Other	95,091	84,810
Hospice services	863,298	621,135
	<u>16,198,943</u>	<u>13,045,111</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	3,612,494	2,981,005
Blood transfusions	203,907	106,953
Electrocardiology and cardiovascular	1,117,246	937,344
Sleep disorder	165,831	194,381
Electroencephalography	18,068	15,480
Radiology and mammography	2,251,167	2,086,221
CT scans	2,322,318	1,661,045
Nuclear scans and ultrasound	2,414,213	2,002,112
Magnetic resonance imaging	1,947,204	1,817,513
Pharmacy	4,575,198	3,663,671
Intravenous therapy	253,629	294,180
Anesthesiology	3,238,589	2,669,853
Physical therapy	2,533,429	2,565,299
Occupational therapy	394,436	453,921
Respiratory therapy	1,407,584	1,254,505
Speech therapy	266,163	189,911
Audiology	305,763	303,676
Cardiac rehabilitation	204,532	233,132
Enterostomal	182	4,221
Occupational health	109,215	43,975
Alternative health services	35,576	28,792
Monroe clinic	82,582	25,082
	<u>27,459,326</u>	<u>23,532,272</u>
Totals	49,972,439	41,819,089
Charity care charges foregone, based on established rates	<u>(331,412)</u>	<u>(137,688)</u>
Total gross patient service revenue	49,641,027	41,681,401
Provisions for contractual adjustments and bad debts	<u>(20,106,096)</u>	<u>(15,987,134)</u>
Total net patient service revenue	<u>\$29,534,931</u>	<u>\$25,694,267</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
\$ 4,567,876	\$ 3,673,484	\$ 144,421	\$ 142,572	\$ -	\$ -
535,256	439,700	5,918	3,099	-	-
513,667	449,818	907	693	-	-
283,590	313,400	-	-	-	-
262,535	218,940	-	-	-	-
<u>6,162,924</u>	<u>5,095,342</u>	<u>151,246</u>	<u>146,364</u>	<u>-</u>	<u>-</u>
3,128,742	2,192,870	4,374,464	3,274,693	-	-
225,382	184,616	759,347	630,812	-	-
240,596	204,040	133,794	102,395	-	-
1,097,435	904,499	3,856,215	3,597,001	-	-
-	-	-	-	883,363	735,685
-	-	-	-	520,372	478,716
-	-	-	-	20,844	33,839
-	-	-	-	95,091	84,810
288,120	21,300	-	-	575,178	599,835
<u>4,980,275</u>	<u>3,507,325</u>	<u>9,123,820</u>	<u>7,604,901</u>	<u>2,094,848</u>	<u>1,932,885</u>
1,340,440	1,028,823	2,272,054	1,952,182	-	-
125,703	67,593	78,204	39,360	-	-
296,041	242,882	821,205	694,462	-	-
-	-	165,831	194,381	-	-
3,896	1,288	14,172	14,192	-	-
324,982	265,412	1,926,185	1,820,809	-	-
549,008	342,862	1,773,310	1,318,183	-	-
181,600	129,288	2,232,613	1,872,824	-	-
134,645	110,704	1,812,559	1,706,809	-	-
2,312,601	1,687,169	2,262,597	1,976,502	-	-
180,618	213,195	73,011	80,985	-	-
928,608	742,093	2,309,981	1,927,760	-	-
229,204	225,435	2,131,398	2,188,222	172,827	151,642
44,200	61,314	313,865	346,810	36,371	45,797
1,190,936	1,061,167	216,648	193,338	-	-
16,336	17,182	237,781	171,215	12,046	1,514
10,297	8,979	295,466	294,697	-	-
-	-	204,532	233,132	-	-
57	114	125	4,107	-	-
-	-	109,215	43,975	-	-
-	-	35,576	28,792	-	-
-	-	82,582	25,082	-	-
<u>7,869,172</u>	<u>6,205,500</u>	<u>19,368,910</u>	<u>17,127,819</u>	<u>221,244</u>	<u>198,953</u>
<u>\$19,012,371</u>	<u>\$14,808,167</u>	<u>\$28,643,976</u>	<u>\$24,879,084</u>	<u>\$2,316,092</u>	<u>\$2,131,838</u>

Skiff Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Contractual adjustments		
Medicare	\$12,704,665	\$10,081,254
Medicaid	2,635,655	1,957,649
Blue Cross	3,123,034	2,366,471
Commercial Insurance	580,572	386,249
Provision for bad debts	932,559	1,101,397
Administrative adjustments	<u>129,611</u>	<u>94,114</u>
 Totals	 <u>\$20,106,096</u>	 <u>\$15,987,134</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Revenues for expenses of home health services		
Jasper County	\$ 141,460	\$ 138,200
Iowa State Department of Health and others	<u>148,137</u>	<u>146,481</u>
Subtotals	289,597	284,681
 Assisted living	 64,260	 203,300
Contributions for expenses of hospice services	107,472	69,465
Cafeteria, diet instructions and dietary consulting services	238,384	230,426
Facilities management	253,596	216,996
Lifeline rental	58,208	57,196
Other	143,470	146,146
Pharmacy, employee, net	(2,691)	(4,062)
Respite	5,610	39,990
Clinic rental, net of expense	<u>145,974</u>	<u>126,670</u>
 Totals	 <u>\$1,303,880</u>	 <u>\$1,370,808</u>

**Skiff Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
ADMINISTRATIVE		
Salaries	\$ 537,695	\$ 580,402
Payroll taxes	70,877	76,921
Supplies and expenses	<u>40,826</u>	<u>23,236</u>
	<u>649,398</u>	<u>680,559</u>
MEDICAL AND SURGICAL		
Salaries	1,657,058	1,533,449
Payroll taxes	215,890	199,707
Purchased services	249,916	333,353
Supplies and expenses	<u>132,988</u>	<u>136,442</u>
	<u>2,255,852</u>	<u>2,202,951</u>
OBSTETRIC, NURSERY, DELIVERY AND LABOR		
Salaries	450,742	416,709
Payroll taxes	58,502	54,435
Purchased services	65,152	65,819
Supplies and expenses	<u>55,985</u>	<u>52,591</u>
	<u>630,381</u>	<u>589,554</u>
CORONARY CARE		
Salaries	216,872	252,014
Payroll taxes	28,543	33,530
Purchased services	73,285	54,578
Supplies and expenses	<u>11,845</u>	<u>21,639</u>
	<u>330,545</u>	<u>361,761</u>
OPERATING AND RECOVERY ROOMS		
Salaries	703,141	682,047
Payroll taxes	92,004	89,555
Purchased services	-	15,351
Supplies and expenses	<u>1,329,095</u>	<u>940,741</u>
	<u>2,124,240</u>	<u>1,727,694</u>
CENTRAL SERVICES		
Salaries	27,393	28,269
Payroll taxes	3,672	3,629
Supplies and expenses	<u>113,610</u>	<u>72,720</u>
	<u>144,675</u>	<u>104,618</u>
EMERGENCY SERVICES		
Salaries	1,537,194	1,111,899
Payroll taxes	181,160	136,608
Professional fees	73,390	455,391
Supplies and expenses	<u>88,240</u>	<u>80,453</u>
	<u>1,879,984</u>	<u>1,784,351</u>
HOME HEALTH SERVICES		
Salaries	903,543	1,011,277
Payroll taxes	116,908	131,757
Purchased services	23,765	43,471
Supplies and expenses	<u>133,373</u>	<u>107,388</u>
	<u>1,177,589</u>	<u>1,293,893</u>
HOSPICE SERVICES		
Salaries	585,147	201,462
Payroll taxes	77,051	26,256
Supplies and expenses	<u>215,862</u>	<u>235,212</u>
	<u>878,060</u>	<u>462,930</u>
Totals	<u>\$10,070,724</u>	<u>\$9,208,311</u>

**Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES**

	Year ended June 30	
	2005	2004
LABORATORY		
Salaries	\$ 544,997	\$ 556,858
Payroll taxes	70,350	71,250
Professional fees	183,776	191,332
Blood	178,102	124,487
Supplies and expenses	<u>322,096</u>	<u>310,123</u>
	<u>1,299,321</u>	<u>1,254,050</u>
ELECTROCARDIOLOGY		
Salaries	16,247	15,883
Payroll taxes	2,177	2,068
Professional fees	23,214	18,520
Supplies and expenses	<u>5,855</u>	<u>5,692</u>
	<u>47,493</u>	<u>42,163</u>
SLEEP DISORDER		
Salaries	2,166	953
Payroll taxes	291	125
Professional fees	<u>61,873</u>	<u>72,210</u>
	<u>64,330</u>	<u>73,288</u>
ELECTROENCEPHALOGRAPHY		
Professional fees	<u>3,500</u>	<u>2,940</u>
RADIOLOGY		
Salaries	765,290	722,244
Payroll taxes	100,289	94,626
Supplies and expenses	484,450	456,084
Professional fees	<u>43,645</u>	<u>23,135</u>
	<u>1,393,674</u>	<u>1,296,089</u>
NUCLEAR SCANS AND ULTRASOUND		
Purchased services	-	89,924
Supplies and expenses	<u>-</u>	<u>50,045</u>
	<u>-</u>	<u>139,969</u>
PHARMACY		
Salaries	269,100	271,365
Payroll taxes	35,188	35,205
Drugs	847,632	741,562
Intravenous solutions	1,998	3,808
Supplies and expenses	<u>23,978</u>	<u>24,430</u>
	<u>1,177,896</u>	<u>1,076,370</u>
ANESTHESIOLOGY		
Salaries	523,035	478,460
Payroll taxes	58,520	51,171
Professional fees	-	36,861
Supplies and expenses	<u>48,342</u>	<u>53,572</u>
	<u>629,897</u>	<u>620,064</u>
PHYSICAL THERAPY		
Salaries	850,221	915,594
Payroll taxes	111,816	118,734
Supplies and expenses	<u>120,150</u>	<u>115,065</u>
	<u>1,082,187</u>	<u>1,149,393</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
OCCUPATIONAL THERAPY		
Salaries	\$ 104,882	\$ 127,757
Payroll taxes	13,631	16,914
Supplies and expenses	<u>18,755</u>	<u>31,759</u>
	<u>137,268</u>	<u>176,430</u>
RESPIRATORY THERAPY		
Salaries	238,058	230,968
Payroll taxes	30,806	29,483
Supplies and expenses	<u>63,048</u>	<u>58,361</u>
	<u>331,912</u>	<u>318,812</u>
SPEECH THERAPY		
Salaries	55,073	67,395
Payroll taxes	7,123	8,946
Supplies and expenses	<u>12,056</u>	<u>4,195</u>
	<u>74,252</u>	<u>80,536</u>
AUDIOLOGY		
Salaries	91,035	78,876
Payroll taxes	11,282	9,949
Supplies and expenses	<u>106,990</u>	<u>136,623</u>
	<u>209,307</u>	<u>225,448</u>
CARDIAC REHABILITATION		
Salaries	91,876	91,331
Payroll taxes	12,269	12,222
Supplies and expenses	<u>2,805</u>	<u>8,386</u>
	<u>106,950</u>	<u>111,939</u>
ENTEROSTOMAL		
Salaries	12,034	45,640
Payroll taxes	2,378	6,021
Professional fees	<u>—</u>	<u>211</u>
	<u>14,412</u>	<u>51,872</u>
OCCUPATIONAL HEALTH		
Salaries	164,702	72,883
Payroll taxes	20,450	9,142
Physicians' fees	16,794	33,611
Supplies and expenses	<u>27,551</u>	<u>15,319</u>
	<u>229,497</u>	<u>130,955</u>
ALTERNATIVE HEALTH SERVICES		
Salaries	42,903	40,519
Payroll taxes	5,627	5,259
Supplies and expenses	<u>1,627</u>	<u>2,116</u>
	<u>50,157</u>	<u>47,894</u>
MONROE CLINIC		
Salaries	98,297	50,287
Payroll taxes	13,192	5,765
Supplies and expenses, net	<u>63,705</u>	<u>56,563</u>
	<u>175,194</u>	<u>112,615</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
ASSISTED LIVING		
Salaries	\$ 48,803	\$ 136,921
Payroll taxes	6,758	17,248
Supplies and expenses	<u>1,263</u>	<u>13,112</u>
	<u>56,824</u>	<u>167,281</u>
SOCIAL SERVICES		
Salaries	149,082	144,848
Payroll taxes	19,494	19,478
Supplies and expenses	<u>2,473</u>	<u>1,353</u>
	<u>171,049</u>	<u>165,679</u>
HEALTH INFORMATION MANAGEMENT		
Salaries	379,570	356,395
Payroll taxes	49,090	46,442
Supplies and expenses	<u>71,620</u>	<u>103,340</u>
	<u>500,280</u>	<u>506,177</u>
Totals	<u>\$7,755,400</u>	<u>\$7,749,964</u>

**Skiff Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
NUTRITION/WELLNESS		
Salaries	\$ 633,670	\$ 622,953
Payroll taxes	80,364	79,157
Food	310,740	278,583
Supplies and expenses	<u>27,349</u>	<u>33,760</u>
	<u>1,052,123</u>	<u>1,014,453</u>
OPERATION OF PLANT		
Salaries	321,442	349,522
Payroll taxes	42,037	46,505
Repairs and maintenance	190,997	198,674
Utilities	788,325	562,080
Supplies and expenses	<u>19,792</u>	<u>11,194</u>
	<u>1,362,593</u>	<u>1,167,975</u>
HOUSEKEEPING		
Salaries	352,819	375,202
Payroll taxes	45,741	49,401
Supplies and expenses	<u>54,694</u>	<u>51,885</u>
	<u>453,254</u>	<u>476,488</u>
LAUNDRY AND LINEN		
Salaries	121,797	114,877
Payroll taxes	15,739	14,672
Supplies and expenses	<u>23,367</u>	<u>26,484</u>
	<u>160,903</u>	<u>156,033</u>
OUTREACH		
Salaries	43,169	52,830
Payroll taxes	6,112	7,705
Supplies and expenses	<u>7,862</u>	<u>9,781</u>
	<u>57,143</u>	<u>70,316</u>
Totals	<u>\$3,086,016</u>	<u>\$2,885,265</u>

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

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Salaries	\$1,661,818	\$1,642,511
Payroll taxes	205,816	203,240
Communications	74,975	76,374
Supplies and purchased services	671,757	595,912
Professional fees	112,631	230,588
Physician recruitment	63,976	36,003
Training and education	22,466	16,952
Collection fees	38,955	18,853
Dues, subscriptions and licenses	43,983	57,210
Other expenses	<u>74,201</u>	<u>38,279</u>
	<u>2,970,578</u>	<u>2,915,922</u>
UNASSIGNED EXPENSES		
Employee benefits		
Workers' compensation insurance	251,043	198,701
Health insurance	1,530,230	1,507,995
Unemployment compensation	11,588	4,043
Long-term disability insurance	42,349	43,482
Life insurance	15,886	5,797
Other	4,438	3,235
Insurance		
Liability and property insurance	<u>212,365</u>	<u>189,673</u>
	<u>2,067,899</u>	<u>1,952,926</u>
 Totals	 <u>\$5,038,477</u>	 <u>\$4,868,848</u>

**Skiff Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Medical and surgical	6,193	5,531
Obstetric	681	630
Coronary care	396	439
Swing bed, skilled care	978	1,206
Nursery	577	534
Hospice	<u>1,164</u>	<u>90</u>
Totals	<u>9,989</u>	<u>8,430</u>
ASSISTED LIVING UNIT DAYS	<u>479</u>	<u>1,551</u>
RESPITE DAYS	<u>33</u>	<u>258</u>
ADMISSIONS		
Acute	2,219	2,001
Swing bed	<u>215</u>	<u>257</u>
Totals	<u>2,434</u>	<u>2,258</u>
DISCHARGES		
Acute	2,213	1,994
Swing bed	<u>215</u>	<u>262</u>
Totals	<u>2,428</u>	<u>2,256</u>
AVERAGE LENGTH OF STAY		
Acute	3.29	3.31
Swing bed	4.55	4.60
BEDS, ACUTE	68	68
OCCUPANCY PERCENT, ACUTE	29.3%	26.5%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$80,918</u>	<u>\$70,203</u>
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	<u>55</u>	<u>61</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, 2005, and have issued our report thereon dated August 5, 2005. We conducted our audit 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.

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, 2005 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 5, 2005

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

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, 2005**

Part II—Findings Related to Required Statutory Reporting

05-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, 2005.

05-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, 2005.

05-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

05-II-D TRAVEL EXPENSES

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

05-II-E BUSINESS TRANSACTIONS

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

05-II-F BOARD MINUTES

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

05-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.