

**Skiff Medical Center
Newton, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Skiff Medical Center
OFFICIALS**

Term expires

(Before January 2006)

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Term expires

(After 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, 2006 and 2005, 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, 2006 and 2005, 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.

As discussed in Note 17 to the financial statements, during the year ended June 30, 2006, the Medical Center discovered an error in previously issued financial statements. As a result, an adjustment has been recorded to fund equity at July 1, 2004, to reflect the prior period adjustment.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2006 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 4, 2006

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, 2006, 2005 and 2004. 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 \$172,000 to \$35,565,000 in Fiscal Year (FY) '06, following a increase of \$1,446,000 in FY '05.
- Total assets whose use is limited increased \$1,010,000 during FY '06, following a \$2.1 million increase in FY '05.
- Total property and equipment, net of depreciation, decreased by \$1,642,000 in FY '06 and decreased by \$1,018,000 in FY '05.
- Fund equity increased by \$1,365,000 in FY '06 and increased by \$1,681,000 in FY '05.
- Net patient service revenue increased by \$3,453,000 to \$32,988,000 during FY '06. The increase for fiscal year '05 was \$3,841,000.
- Operating expenses increased by \$4,155,000 in FY '06 and by \$1,475,000 in FY '05.
- Total margin for FY 2006 was 4.0%, compared to 5.43% for FY 2005.

Inpatient utilization remained relatively flat after three years of consecutive increases. 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. Despite flat inpatient days, inpatient revenue increased due to higher numbers of orthopedic procedures during FY '06. The increase in revenue from outpatient visits was driven by volume increases in the operating room, laboratory, physical therapy and radiology during FY '06. Provision for bad debt increased between FY '05 and FY '06 from \$933,000 to \$1,064,000.

The overall expense increase during FY '06 was driven by increases in salary and benefit expense, which represents nearly 64% of our total expenses. In addition to adding staff for an outreach clinic, Colfax Health Service, and a surgical clinic, 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, particularly orthopedic joint-replacement procedures. Due to reaching the end of the depreciation life for several pieces of technology-based equipment, depreciation expense decreased 5%.

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, 2006, 2005 and 2004, are presented in Table 1 below.

Table 1
Condensed Balance Sheets
(in Thousands)

	June 30, 2006	June 30, 2005	June 30, 2004	FY '05 to FY '06 \$ Change	FY '05 to FY '06 % Change	FY '04 to FY '05 \$ Change	FY '04 to FY '05 % Change
Current and other assets	\$13,992	\$12,177	\$9,712	\$1,814	14.9	\$2,465	25.4
Capital assets	21,574	23,216	24,234	(1,642)	(7.1)	(1,018)	(4.2)
Total Assets	\$35,565	\$35,393	\$33,947	\$172	0.5	\$1,446	4.3
Long-term debt outstanding	\$1,483	\$2,534	\$2,541	(\$1,051)	(41.5)	(\$7)	(0.3)
Other liabilities	3,454	3,596	3,823	(142)	(3.9)	(227)	(5.9)
Total liabilities	\$4,937	\$6,130	\$6,364	(\$1,193)	(19.5)	(\$234)	(3.7)
Invested in capital assets,							
net of related debt	\$19,008	\$19,445	\$20,179	(\$437)	(2.2)	(\$734)	(3.6)
Unrestricted	11,229	9,436	7,003	1,793	19.0	2,432	34.7
Restricted	392	382	400	9	2.5	(18)	(4.4)
Total net assets	\$30,628	\$29,263	\$27,582	\$1,365	4.7	\$1,681	6.1

As can be seen in Table 1, net assets increased by \$1,365,000 to \$30.6 million in FY 2006. Net assets at the end of FY '05 and FY '04 were \$29.3 million and \$27.6 million, respectively. The FY '06 increase was due to increases in cash reserves held for future cash flow needs and also an increase in patient receivables.

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, 2006, 2005 and 2004.

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

	Year ended June 30,		
	2006	2005	2004
Net patient service revenue	32,988	29,535	25,694
Other operating revenue	1,357	1,304	1,371
Total revenue	\$34,345	\$30,839	\$27,065
Operating expenses:			
Nursing service	11,801	10,071	9,208
Other professional service	9,339	7,755	7,750
General service	3,171	3,086	2,885
Fiscal and administrative service and unassigned expenses	5,953	5,038	4,869
Provision for depreciation and amortization	3,004	3,163	2,926
Total operating expenses	33,268	29,113	27,638
Operating income (loss)	1,076	1,726	(573)
Non-operating gain (loss)	127	(509)	90
Excess (deficiency) of revenues over expenses before contributions	1,203	1,217	(483)
Contributions	162	464	402
Changes in fund equity	1,365	1,681	(81)
Total fund equity, beginning	29,263	27,582	27,664
Total fund equity, ending	\$30,628	\$29,263	\$27,582

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2006, June 30 2005 and June 30, 2004.

Volume: Inpatient acute admissions (excluding normal newborns) for fiscal year 2006 were 2,225 compared to 2,219 in fiscal year 2005 and 2,001 in fiscal year 2004. The average length of stay has remained fairly steady, ranging between 3.29 and 3.4 during fiscal years 2004 through 2006. Total patient days have increased from 8,430 to 9,939 during this same time period. Inpatient surgical visits increased the past two years due to expanded orthopedic coverage.

Net Patient Service Revenue: Due to rate increases and the increase in patient volumes discussed above, net patient service revenues climbed by \$3.5 million, or 11.7% in comparison to fiscal year 2005. Outpatient revenue represented 58% of our gross patient service revenue and experienced 18.5% growth for FY '06 and 15% growth for FY '05. Inpatient revenue, representing 38% of our gross patient service revenue, experienced growth of 18% for FY '06 and 28% for FY '05. The remaining 4% of revenue is generated through Home Health and Hospice.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2006, 2005 and 2004.

**Table 3
Payor Mix by Percentage**

	Year Ended June 30,		
	2006	2005	2004
Medicare	44.1%	44.6%	44.3%
Wellmark	25.2%	26.1%	26.4%
Commercial	15.5%	13.8%	13.9%
Medicaid	8.3%	7.3%	7.3%
Self Pay	4.0%	3.6%	4.3%
All other	2.9%	4.6%	3.8%
Total	100.0%	100.0%	100.0%

Other Operating Revenue: The increase of \$53,000 in FY '06 was driven by increases in contributions, grant funding and lifeline services. In previous years, other operating revenue decreased by \$67,000 due to the closure of the assisted living unit during fiscal year 2005 after an increase of \$115,000 in FY '04 due to increases in public health screenings and immunizations, occupational health exams and building rental income.

Nursing Service Expenses: Market-driven salary increases for nursing staff, the use of agency staff and volume-related operating room supplies drove increases of \$1,730,000, or 17% in FY '06, and \$862,000, or 9%, in FY '05 nursing service expenses.

Other Professional Service Expenses: Expenses in this category increased \$1,584,000 during FY '06 after remaining relatively flat from FY '04 to FY '05. The increase in FY '06 was driven by the addition of staff for an outreach clinic and a surgical clinic as well as other volume-related staffing and supply expenses in other clinical areas. 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 '06 was \$85,000 or 3% in FY '06 and \$201,000 or 7% in FY '05. The increased expenses for FY '06 represent increased supply and salary expenses in these areas. The FY '05 increase was primarily the result of increased utilities costs.

Fiscal and Administrative Expenses: During FY '06, the fiscal and administrative expenses increased \$915,000, or 18% after a \$170,000, or 3.5%, increase in FY'05. Higher health insurance and other insurance expenses have been the primary drivers 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. Since the beginning of the fundraising activities, a total of \$979,000 of these funds have been 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 \$127,000 in FY '06 and a non-operating loss of \$509,000 in FY '05. 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 \$164,000 during FY '06 and \$27,000 in fiscal year 2005. 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 2006, the Medical Center had invested \$21.6 million in capital assets as shown in Table 4. The Medical Center added \$1.1 million in capital assets during FY '06, but this increase was offset by depreciation on assets purchased in prior years, resulting in a net decrease of \$1.6 million in net capital assets. The \$1.975 million decrease in major movable equipment during FY '05 was the result of removal of obsolete assets during the fiscal year. Over the past several years, the Medical Center has purchased various pieces of radiology equipment and information technology equipment and software. These purchases were funded through master financing agreements with Citicapital and Oliver-Allen Technology Leasing. The financing was 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, 2006, 2005 and 2004.

Table 4
Capital Assets
(in Thousands)

	2006	2005	2004	Change from '05 to '06	Change from '04 to '05
Land	\$2,073	\$2,073	\$1,947	\$0	\$127
Land improvements	2,216	2,198	2,179	18	19
Buildings	19,654	19,854	19,307	(199)	547
Fixed equipment	6,469	6,406	6,077	62	329
Major movable equipment	10,241	7,977	9,952	1,222	(1,975)
Construction in progress	0	76	582	(76)	(505)
Assets held under capital lease obligations	3,572	4,536	3,457	78	1,079
Subtotal	44,225	43,120	43,500	1,105	(380)
Less accumulated depreciation	(20,867)	(18,005)	(17,947)	(2,861)	(58)
Less accumulated amortization on assets held under capital leases	(1,785)	(1,899)	(1,318)	114	(581)
Property, plant and equipment, net	\$21,574	\$23,216	\$24,234	(\$1,642)	(\$1,018)

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Medical Center had \$960,000 million in short- and long-term debt related to Hospital Revenue Bonds. This has decreased by \$460,000 from \$1.42 million at the end of fiscal year 2005, which was the amount of principal payments on outstanding debt for fiscal year 2006. 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 30% of the Medical Center's total liabilities as of June 30, 2006, down from 41% at the prior fiscal year-end. The decrease was due to several lease obligations that were completed during FY '06 and also the continued repayment of bond financing.

Capital Leases

At year-end, the Medical Center had \$1.6 million in short- and long-term capital lease obligations. This has decreased \$761,000 from fiscal year-end 2005. Payments are being made on existing lease obligations and no new lease obligations were entered into during the year. 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 33% of the Medical Center's total liabilities as of fiscal year-end '06, compared to 39% at June 30, 2005.

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	
	2006	2005 (As restated)
CURRENT ASSETS		
Cash	\$ 660,679	\$ 677,301
Assets whose use is limited, required for current liabilities	369,441	362,140
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,200,075	4,457,570
Inventories	495,958	443,701
Prepaid expenses	222,850	209,186
Other current assets	109,676	117,328
Total current assets	7,058,679	6,267,226
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	67,010	133,774
Certificates of deposit	3,400,000	2,600,000
Marketable equity securities	2,203,576	1,958,495
Accrued interest receivable	45,252	22,745
	5,715,838	4,715,014
Restricted under loan agreement		
Cash, revenue note sinking fund	84,441	77,140
Certificate of deposit, debt service reserve fund	285,000	285,000
	369,441	362,140
Restricted by donors for specific purpose		
Certificate of deposit	22,100	20,000
Total assets whose use is limited	6,107,379	5,097,154
Less current portion	369,441	362,140
Noncurrent assets whose use is limited	5,737,938	4,735,014
BENEFICIAL INTEREST IN REMAINDER TRUST		
	1,195,000	1,175,000
PROPERTY AND EQUIPMENT		
Less accumulated depreciation and amortization	44,225,128	43,120,083
Total property and equipment	22,651,339	19,904,339
	21,573,789	23,215,744
Totals	\$35,565,406	\$35,392,984

See Notes to Financial Statements.

	June 30	
	<u>2006</u>	<u>2005</u> (As restated)
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,083,268	\$ 1,237,065
Accounts payable, trade	428,421	490,836
Accrued payroll and payroll taxes	779,668	626,129
Accrued employee benefits	1,092,981	1,127,648
Estimated third-party payor settlements	70,145	114,652
	<u>3,454,483</u>	<u>3,596,330</u>
LONG-TERM DEBT		
Revenue notes payable, net of deferred financing costs	944,939	1,388,019
Obligations under capital leases	<u>1,621,192</u>	<u>2,382,596</u>
	2,566,131	3,770,615
Less current maturities	<u>1,083,268</u>	<u>1,237,065</u>
Total long-term debt	<u>1,482,863</u>	<u>2,533,550</u>
COMMITMENT AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	19,007,658	19,445,129
Restricted		
Nonexpendable permanent endowment	22,100	20,000
Under loan agreement	369,441	362,140
Unrestricted	<u>11,228,861</u>	<u>9,435,835</u>
Total fund equity	<u>30,628,060</u>	<u>29,263,104</u>
	<u>35,565,406</u>	<u>35,392,984</u>
Totals	<u>\$35,565,406</u>	<u>\$35,392,984</u>

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

	Year ended June 30	
	2006	2005 (As restated)
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2006 \$1,063,682; 2005 \$932,559	\$32,988,015	\$29,534,931
OTHER REVENUE	<u>1,356,660</u>	<u>1,303,880</u>
Total revenue	<u>34,344,675</u>	<u>30,838,811</u>
OPERATING EXPENSES		
Nursing service	11,801,044	10,070,724
Other professional service	9,339,359	7,755,400
General service	3,171,040	3,086,016
Fiscal and administrative service and unassigned expenses	5,953,268	5,038,477
Provision for depreciation and amortization	<u>3,003,606</u>	<u>3,162,656</u>
Total operating expenses	<u>33,268,317</u>	<u>29,113,273</u>
Operating income	<u>1,076,358</u>	<u>1,725,538</u>
NONOPERATING GAINS (LOSSES)		
Investment income	195,193	85,565
Interest expense	(205,183)	(201,364)
Net increase in the fair value of investments	163,730	26,821
Change in value of split-interest agreement	20,000	15,000
Unrestricted contributions	2,715	2,000
Transfers to related foundation	(60,000)	(390,000)
Gain (loss) on disposal of assets	<u>10,543</u>	<u>(46,945)</u>
Total nonoperating gains (losses)	<u>126,998</u>	<u>(508,923)</u>
Excess of revenues over expenses before contributions	1,203,356	1,216,615
RESTRICTED CONTRIBUTIONS	<u>161,600</u>	<u>464,000</u>
Change in fund equity	1,364,956	<u>1,680,615</u>
TOTAL FUND EQUITY		
Beginning, as previously reported		26,422,489
Adjustment		<u>1,160,000</u>
Beginning, as restated	<u>29,263,104</u>	<u>27,582,489</u>
Ending	<u>\$30,628,060</u>	<u>\$29,263,104</u>

See Notes to Financial Statements.

**Skiff Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$32,201,003	\$29,350,947
Cash paid to suppliers for goods and services	(14,566,970)	(11,632,675)
Cash paid to employees for services	(15,706,410)	(14,137,407)
Home health services grants received	323,398	289,597
Contributions received for expenses of hospice services	123,368	107,472
Other operating revenue received	<u>917,546</u>	<u>845,711</u>
Net cash provided by operating activities	<u>3,291,935</u>	<u>4,823,645</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	2,715	2,000
Transfers to related foundation	(60,000)	(390,000)
Endowments received	<u>2,100</u>	<u>2,000</u>
Net cash (used in) noncapital financing activities	<u>(55,185)</u>	<u>(386,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,221,404)	(1,669,511)
Interest paid on long-term debt	(189,058)	(176,995)
Acquisition of property and equipment	(1,699,627)	(1,040,450)
Proceeds from sale of property and equipment	348,519	8,000
Contributions received, restricted for purchase of property and equipment	<u>159,500</u>	<u>462,000</u>
Net cash (used in) capital and related financing activities	<u>(2,602,070)</u>	<u>(2,416,956)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(7,392,100)	(3,590,000)
Proceeds from maturities of certificates of deposit	6,590,000	988,000
Purchase of marketable securities	(2,796,672)	(1,326,036)
Proceeds from sale of marketable securities	2,715,321	1,979,956
Interest and dividends received	<u>172,686</u>	<u>63,082</u>
Net cash (used in) investing activities	<u>(710,765)</u>	<u>(1,884,998)</u>
NET INCREASE (DECREASE) IN CASH	(76,085)	135,691
CASH		
Beginning	<u>888,215</u>	<u>752,524</u>
Ending	<u>\$ 812,130</u>	<u>\$ 888,215</u>

See Notes to Financial Statements.

Skiff Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,076,358	\$1,725,538
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,003,606	3,162,656
Change in assets and liabilities		
(Increase) in patient receivables	(742,505)	(178,636)
(Increase) in inventories	(52,257)	(11,982)
(Increase) decrease in other current assets	7,652	(61,100)
(Increase) in prepaid expenses	(13,664)	(65,084)
Increase (decrease) in accounts payable, trade, net of amount related to purchase of property and equipment	(61,620)	188,199
Increase in accrued payroll and payroll taxes	153,539	63,464
Increase (decrease) in accrued employee benefits	(34,667)	5,938
(Decrease) in net estimated third-party payor settlements	<u>(44,507)</u>	<u>(5,348)</u>
Net cash provided by operating activities	<u>\$3,291,935</u>	<u>\$4,823,645</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Equipment acquired under capital leases	\$ <u> —</u>	<u>\$1,359,871</u>
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 660,679	\$ 677,301
Assets whose use is limited		
By board for plant replacement and expansion, cash	67,010	133,774
Under loan agreement for revenue bond, sinking fund, cash	<u>84,441</u>	<u>77,140</u>
Total per statement of cash flows	<u>\$ 812,130</u>	<u>\$ 888,215</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
Marketable securities Equity mutual funds	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, 2006 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, 2006 are as follows:

	<u>Fair value</u>
Equity mutual funds	<u>\$2,203,576</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. Mutual funds are exempted from these constraints.

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2006	2005
Receivable from patients	\$1,699,121	\$1,250,123
Receivable from insurance carriers	3,337,906	2,674,442
Receivable from Medicare	2,351,280	2,361,719
Receivable from Medicaid	<u>822,793</u>	<u>639,371</u>
Total patient receivables	8,211,100	6,925,655
Less allowances for contractual adjustments and uncollectibles	<u>3,011,025</u>	<u>2,468,085</u>
Net patient receivables	<u>\$5,200,075</u>	<u>\$4,457,570</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 and the Deficit Reduction Act of 2005) for services furnished before January 1, 2008, 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. Unless extended, after January 1, 2008, the payment for outpatient services is limited to the prospectively determined amounts. 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, 2005.

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 SPLIT-INTEREST AGREEMENT

The Medical Center is a party to the Harold A. Lufkin Charitable Remainder Unitrust, a split-interest agreement. The trust agreement specifies that Mr. Lufkin's son will annually receive 7% of the fair value of the trust assets until his death, at which time the remainder of the trust will be distributed to the Medical Center. The interest in the remainder trust has been recorded at the expected fair value of the trust assets based on assumptions regarding expected trust income net of expected payouts to Mr. Lufkin's son. To calculate the expected fair value of the trust, the 2003 life expectancy tables (published by the National Center of Health Statistics) and a 6% discount rate were used. Changes in the valuation of the split-interest agreement are separately reported in the statements of revenue, expenses, and changes in fund equity.

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>
Land	\$ 2,073,418	\$ —	\$ 2,073,418	\$ —
Land improvements	2,216,374	1,403,594	2,198,029	1,291,725
Buildings	19,654,368	7,979,298	19,853,766	7,103,223
Fixed equipment	6,468,702	3,940,841	6,406,062	3,663,734
Major movable equipment including equipment under capital lease 2006 \$3,571,538; 2005 \$4,535,920	13,812,266	9,327,606	12,512,607	7,845,657
Construction in progress	<u>—</u>	<u>—</u>	<u>76,201</u>	<u>—</u>
Totals	<u>\$44,225,128</u>	<u>\$22,651,339</u>	<u>\$43,120,083</u>	<u>\$19,904,339</u>

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to \$2,153,431 and \$2,246,949, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2006 and 2005 amounted to \$850,175 and \$915,707, respectively. Accumulated amortization on these assets totaled \$1,784,793 and \$1,899,000 at June 30, 2006 and 2005, respectively.

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 2,073,418	\$ —	\$ —	\$ —	\$ 2,073,418
Land improvements	2,198,029	7,313	—	11,032	2,216,374
Buildings	19,853,766	38,147	(395,571)	158,026	19,654,368
Fixed equipment	6,406,062	61,286	—	1,354	6,468,702
Major movable equipment including equipment under capital lease	12,512,607	1,342,339	(199,011)	156,331	13,812,266
Construction in progress	<u>76,201</u>	<u>250,542</u>	<u>—</u>	<u>(326,743)</u>	<u>—</u>
Totals	43,120,083	1,699,627	(594,582)	—	44,225,128
Less accumulated depreciation and amortization	<u>(19,904,339)</u>	<u>(3,003,606)</u>	<u>256,606</u>	<u>—</u>	<u>(22,651,339)</u>
Net property and equipment	<u>\$23,215,744</u>	<u>\$(1,303,979)</u>	<u>\$(337,976)</u>	<u>\$ —</u>	<u>\$21,573,789</u>

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 PROPERTY AND EQUIPMENT (continued)

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	(19,265,464)	(3,162,656)	2,523,781	—	(19,904,339)
Net property and equipment	<u>\$24,234,145</u>	<u>\$ (949,967)</u>	<u>\$ (68,434)</u>	<u>\$ —</u>	<u>\$23,215,744</u>

NOTE 7 PROPERTY LEASED TO OTHERS

The Medical Center has entered into two 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 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 8 LONG-TERM DEBT

Long-term debt at June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Hospital Revenue Refunding Notes, Series 2003	\$ 960,000	\$1,420,000
Obligations under capital leases	<u>1,621,192</u>	<u>2,382,596</u>
	2,581,192	3,802,596
Less deferred financing costs	15,061	31,981
Less current maturities	<u>1,083,268</u>	<u>1,237,065</u>
Long-term debt, net of current maturities	<u>\$1,482,863</u>	<u>\$2,533,550</u>

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 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 \$235,000 to \$245,000 through June 2008 with interest payable semiannually at 2.30 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 4.1 to 7.6 percent.

The leases require various monthly payments of \$886 to \$13,652, with lease terms expiring between October 2006 and October 2014. At June 30, 2006, the aggregate monthly payment for all capital leases is \$61,082.

Principal and interest maturities of the debt outstanding at June 30, 2006 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,083,268	\$ 95,238	\$1,178,506
2008	873,514	53,033	926,547
2009	242,517	25,248	267,765
2010	87,882	16,566	104,448
2011	62,039	13,305	75,344
2012-2015	<u>231,972</u>	<u>18,904</u>	<u>250,876</u>
Totals	<u>\$2,581,192</u>	<u>\$ 222,294</u>	<u>\$2,803,486</u>

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2006 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	\$1,420,000	\$ —	\$ 460,000	\$ 960,000	\$ 475,000
Obligations under capital leases	<u>2,382,596</u>	<u>—</u>	<u>761,404</u>	<u>1,621,192</u>	<u>608,268</u>
Totals	<u>\$3,802,596</u>	<u>\$ —</u>	<u>\$1,221,404</u>	<u>\$2,581,192</u>	<u>\$1,083,268</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>

NOTE 9 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, 2006 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 10 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, 2006, 2005 and 2004 were \$904,265, \$806,679 and \$757,795, respectively, equal to the required contributions for each year.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 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, 2006 and 2005 was \$2,239,487 and \$1,530,230, 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 12 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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Charges foregone, based on established rates	\$ <u>675,031</u>	\$ <u>331,412</u>
Equivalent percentage of charity care patients to all patients served	<u>1.2%</u>	<u>.7%</u>

NOTE 13 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 \$132,000 and \$462,000 to the Medical Center during the years ended June 30, 2006 and 2005, respectively, for the Medical Center's hospice wing and other capital projects. Additionally, \$60,000 and \$390,000 was transferred from the Medical Center to the Foundation during the years ended June 30, 2006 and 2005, respectively, and has been included in nonoperating losses.

NOTE 14 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, 2006 totals	\$ <u>33,268,317</u>	\$ <u>205,183</u>	\$ <u>33,473,500</u>	\$ <u>46,000,000</u>

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 15 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 16 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.

NOTE 17 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2006, the Medical Center discovered an error in previously issued financial statements. Harold A. Lufkin died on September 3, 1977. His last will and testament created a split-interest agreement, the Harold A. Lufkin Charitable Remainder Unitrust, to which the Medical Center is a party. Statement No. 33 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Nonexchange Transactions" which became effective for the year ended June 30, 2001, required recognition of this split-interest agreement. The correction of this error resulted in an increase to the June 30, 2004 total fund equity of \$1,160,000 representing the beneficial interest in the trust recorded at the present value of the expected fair value of the trust assets at that date.

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, 2006 and 2005 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

West Des Moines, Iowa
August 4, 2006

**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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$5,045,348	\$4,424,201	61.4%	63.9%
31 - 60 days	1,000,865	947,007	12.2	13.7
61 - 90 days	520,818	432,768	6.3	6.2
91 - 120 days	499,413	360,804	6.1	5.2
121 - 365 days	958,069	656,313	11.7	9.5
Over one year	<u>186,587</u>	<u>104,562</u>	<u>2.3</u>	<u>1.5</u>
Totals	<u>8,211,100</u>	<u>6,925,655</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,284,265	1,237,094		
Medicaid	410,867	301,867		
Blue Cross	531,000	352,000		
Other	123,362	132,362		
Uncollectibles	<u>661,531</u>	<u>444,762</u>		
Total allowances	<u>3,011,025</u>	<u>2,468,085</u>		
Totals	<u>\$5,200,075</u>	<u>\$4,457,570</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BALANCE , beginning	\$ 444,762	\$ 423,653		
ADD				
Provision for bad debts	1,063,682	932,559	3.2%	3.2%
Recoveries of accounts previously written off	456,318	518,441	1.4	1.8
LESS				
Accounts written off	<u>(1,303,231)</u>	<u>(1,429,891)</u>	4.0	4.8
BALANCE , ending	<u>\$ 661,531</u>	<u>\$ 444,762</u>		
COLLECTION FEES	<u>\$ 25,318</u>	<u>\$ 38,955</u>	.1	.1

**Skiff Medical Center
PATIENT SERVICE REVENUE**

	Total	
	Year ended June 30	
	2006	2005
DAILY PATIENT SERVICES		
Medical and surgical	\$ 5,328,167	\$ 4,712,297
Obstetric	576,612	541,174
Coronary care	639,912	514,574
Swing bed		
Skilled care	171,045	283,590
Nursery	283,220	262,535
	<u>6,998,956</u>	<u>6,314,170</u>
OTHER NURSING SERVICES		
Operating rooms	10,014,645	7,503,206
Recovery rooms	1,122,550	984,729
Delivery and labor rooms	419,709	374,390
Emergency services	5,728,714	4,953,650
Home health services		
Skilled nursing	898,239	883,363
Aides	472,748	520,372
Extended home care	-	20,844
Other	83,163	95,091
Hospice services	787,033	863,298
	<u>19,526,801</u>	<u>16,198,943</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	3,988,574	3,612,494
Blood transfusions	278,590	203,907
Electrocardiology and cardiovascular	1,129,939	1,117,246
Sleep disorder	295,410	165,831
Electroencephalography	20,664	18,068
Radiology and mammography	2,585,450	2,251,167
CT scans	3,036,214	2,322,318
Nuclear scans and ultrasound	2,656,745	2,414,213
Magnetic resonance imaging	2,134,659	1,947,204
Pharmacy	4,569,952	4,575,198
Intravenous therapy	198,583	253,629
Anesthesiology	3,832,084	3,238,589
Physical therapy	2,688,382	2,533,429
Occupational therapy	465,285	394,436
Respiratory therapy	1,566,844	1,407,584
Speech therapy	286,811	266,163
Audiology	400,469	305,763
Cardiac rehabilitation	200,478	204,532
Enterostomal	4,172	182
Occupational health	146,003	109,215
Alternative health services	40,207	35,576
Clinics	1,430,064	82,582
	<u>31,955,579</u>	<u>27,459,326</u>
Totals	58,481,336	49,972,439
Charity care charges foregone, based on established rates	<u>(675,031)</u>	<u>(331,412)</u>
Total gross patient service revenue	57,806,305	49,641,027
Provisions for contractual adjustments and bad debts	<u>(24,818,290)</u>	<u>(20,106,096)</u>
Total net patient service revenue	<u>\$32,988,015</u>	<u>\$29,534,931</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
\$ 5,153,891	\$ 4,567,876	\$ 174,276	\$ 144,421	\$ -	\$ -
571,585	535,256	5,027	5,918	-	-
639,086	513,667	826	907	-	-
171,045	283,590	-	-	-	-
283,220	262,535	-	-	-	-
<u>6,818,827</u>	<u>6,162,924</u>	<u>180,129</u>	<u>151,246</u>	<u>-</u>	<u>-</u>
4,801,233	3,128,742	5,213,412	4,374,464	-	-
266,450	225,382	856,100	759,347	-	-
251,658	240,596	168,051	133,794	-	-
1,166,613	1,097,435	4,562,101	3,856,215	-	-
-	-	-	-	898,239	883,363
-	-	-	-	472,748	520,372
-	-	-	-	-	20,844
-	-	-	-	83,163	95,091
302,305	288,120	-	-	484,728	575,178
<u>6,788,259</u>	<u>4,980,275</u>	<u>10,799,664</u>	<u>9,123,820</u>	<u>1,938,878</u>	<u>2,094,848</u>
1,517,596	1,340,440	2,470,978	2,272,054	-	-
167,330	125,703	111,260	78,204	-	-
331,107	296,041	798,832	821,205	-	-
-	-	295,410	165,831	-	-
1,914	3,896	18,750	14,172	-	-
376,271	324,982	2,209,179	1,926,185	-	-
722,579	549,008	2,313,635	1,773,310	-	-
203,807	181,600	2,452,938	2,232,613	-	-
154,066	134,645	1,980,593	1,812,559	-	-
2,358,719	2,312,601	2,211,233	2,262,597	-	-
146,202	180,618	52,381	73,011	-	-
1,139,610	928,608	2,692,474	2,309,981	-	-
267,851	229,204	2,272,947	2,131,398	147,584	172,827
74,395	44,200	334,976	313,865	55,914	36,371
1,285,146	1,190,936	281,698	216,648	-	-
29,160	16,336	246,733	237,781	10,918	12,046
11,057	10,297	389,412	295,466	-	-
-	-	200,478	204,532	-	-
-	57	4,172	125	-	-
-	-	146,003	109,215	-	-
-	-	40,207	35,576	-	-
-	-	1,430,064	82,582	-	-
<u>8,786,810</u>	<u>7,869,172</u>	<u>22,954,353</u>	<u>19,368,910</u>	<u>214,416</u>	<u>221,244</u>
<u>\$22,393,896</u>	<u>\$19,012,371</u>	<u>\$33,934,146</u>	<u>\$28,643,976</u>	<u>\$2,153,294</u>	<u>\$2,316,092</u>

Skiff Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$14,944,651	\$12,704,665
Medicaid	3,342,508	2,635,655
Blue Cross	4,178,393	3,123,034
Commercial Insurance	1,146,207	580,572
Provision for bad debts	1,063,682	932,559
Administrative adjustments	<u>142,849</u>	<u>129,611</u>
 Totals	 <u>\$24,818,290</u>	 <u>\$20,106,096</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Revenues for expenses of home health services		
Jasper County	\$ 143,598	\$ 141,460
Iowa State Department of Health and others	<u>179,800</u>	<u>148,137</u>
Subtotals	323,398	289,597
 Assisted living	 -	 64,260
Contributions for expenses of hospice services	123,368	107,472
Cafeteria, diet instructions and dietary consulting services	256,309	238,384
Facilities management	295,293	253,596
Lifeline rental	87,396	58,208
Other	181,651	143,470
Pharmacy, employee, net	(537)	(2,691)
Respite	700	5,610
Clinic rental, net of expense	<u>89,082</u>	<u>145,974</u>
 Totals	 <u>\$1,356,660</u>	 <u>\$1,303,880</u>

**Skiff Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
ADMINISTRATIVE		
Salaries	\$ 575,742	\$ 537,695
Payroll taxes	76,522	70,877
Supplies and expenses	<u>30,151</u>	<u>40,826</u>
	<u>682,415</u>	<u>649,398</u>
MEDICAL AND SURGICAL		
Salaries	1,617,516	1,657,058
Payroll taxes	212,567	215,890
Purchased services	566,458	249,916
Supplies and expenses	<u>166,871</u>	<u>132,988</u>
	<u>2,563,412</u>	<u>2,255,852</u>
OBSTETRIC, NURSERY, DELIVERY AND LABOR		
Salaries	500,377	450,742
Payroll taxes	64,174	58,502
Purchased services	154,112	65,152
Supplies and expenses	<u>50,850</u>	<u>55,985</u>
	<u>769,513</u>	<u>630,381</u>
CORONARY CARE		
Salaries	226,578	216,872
Payroll taxes	30,165	28,543
Purchased services	105,661	73,285
Supplies and expenses	<u>18,479</u>	<u>11,845</u>
	<u>380,883</u>	<u>330,545</u>
OPERATING AND RECOVERY ROOMS		
Salaries	790,474	703,141
Payroll taxes	103,853	92,004
Purchased services	27,802	-
Supplies and expenses	<u>1,920,985</u>	<u>1,329,095</u>
	<u>2,843,114</u>	<u>2,124,240</u>
CENTRAL SERVICES		
Salaries	37,223	27,393
Payroll taxes	4,914	3,672
Supplies and expenses	<u>111,209</u>	<u>113,610</u>
	<u>153,346</u>	<u>144,675</u>
EMERGENCY SERVICES		
Salaries	1,779,577	1,537,194
Payroll taxes	209,245	181,160
Professional fees	113,424	73,390
Supplies and expenses	<u>109,984</u>	<u>88,240</u>
	<u>2,212,230</u>	<u>1,879,984</u>
HOME HEALTH SERVICES		
Salaries	901,975	903,543
Payroll taxes	117,599	116,908
Purchased services	-	23,765
Supplies and expenses	<u>151,040</u>	<u>133,373</u>
	<u>1,170,614</u>	<u>1,177,589</u>
HOSPICE SERVICES		
Salaries	717,771	585,147
Payroll taxes	93,604	77,051
Supplies and expenses	<u>214,142</u>	<u>215,862</u>
	<u>1,025,517</u>	<u>878,060</u>
Totals	<u>\$11,801,044</u>	<u>\$10,070,724</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
LABORATORY		
Salaries	\$ 585,198	\$ 544,997
Payroll taxes	75,998	70,350
Professional fees	205,505	183,776
Blood	239,561	178,102
Supplies and expenses	<u>326,443</u>	<u>322,096</u>
	<u>1,432,705</u>	<u>1,299,321</u>
ELECTROCARDIOLOGY		
Salaries	16,979	16,247
Payroll taxes	2,332	2,177
Professional fees	22,881	23,214
Supplies and expenses	<u>4,966</u>	<u>5,855</u>
	<u>47,158</u>	<u>47,493</u>
SLEEP DISORDER		
Salaries	2,587	2,166
Payroll taxes	341	291
Professional fees	<u>112,500</u>	<u>61,873</u>
	<u>115,428</u>	<u>64,330</u>
ELECTROENCEPHALOGRAPHY		
Professional fees	<u>4,129</u>	<u>3,500</u>
RADIOLOGY		
Salaries	873,094	765,290
Payroll taxes	114,317	100,289
Supplies and expenses	509,687	484,450
Professional fees	<u>70,560</u>	<u>43,645</u>
	<u>1,567,658</u>	<u>1,393,674</u>
PHARMACY		
Salaries	296,210	269,100
Payroll taxes	37,594	35,188
Drugs	798,860	847,632
Intravenous solutions	2,663	1,998
Supplies and expenses	<u>23,717</u>	<u>23,978</u>
	<u>1,159,044</u>	<u>1,177,896</u>
ANESTHESIOLOGY		
Salaries	636,257	523,035
Payroll taxes	67,736	58,520
Professional fees	21,915	-
Supplies and expenses	<u>67,190</u>	<u>48,342</u>
	<u>793,098</u>	<u>629,897</u>
PHYSICAL THERAPY		
Salaries	869,206	850,221
Payroll taxes	111,944	111,816
Supplies and expenses	<u>145,743</u>	<u>120,150</u>
	<u>1,126,893</u>	<u>1,082,187</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
OCCUPATIONAL THERAPY		
Salaries	\$ 110,204	\$ 104,882
Payroll taxes	14,129	13,631
Supplies and expenses	17,610	18,755
	<u>141,943</u>	<u>137,268</u>
RESPIRATORY THERAPY		
Salaries	263,966	238,058
Payroll taxes	34,306	30,806
Supplies and expenses	58,557	63,048
	<u>356,829</u>	<u>331,912</u>
SPEECH THERAPY		
Salaries	62,448	55,073
Payroll taxes	8,157	7,123
Supplies and expenses	28,650	12,056
	<u>99,255</u>	<u>74,252</u>
AUDIOLOGY		
Salaries	88,802	91,035
Payroll taxes	11,187	11,282
Supplies and expenses	157,108	106,990
	<u>257,097</u>	<u>209,307</u>
CARDIAC REHABILITATION		
Salaries	104,182	91,876
Payroll taxes	13,449	12,269
Supplies and expenses	7,762	2,805
	<u>125,393</u>	<u>106,950</u>
ENTEROSTOMAL		
Salaries	36,073	12,034
Payroll taxes	4,769	2,378
Professional fees	1,812	-
	<u>42,654</u>	<u>14,412</u>
OCCUPATIONAL HEALTH		
Salaries	184,952	164,702
Payroll taxes	23,438	20,450
Physicians' fees	45,150	16,794
Supplies and expenses	33,343	27,551
	<u>286,883</u>	<u>229,497</u>
ALTERNATIVE HEALTH SERVICES		
Salaries	45,557	42,903
Payroll taxes	6,073	5,627
Supplies and expenses	1,657	1,627
	<u>53,287</u>	<u>50,157</u>
CLINICS		
Salaries	652,031	98,297
Payroll taxes	81,258	13,192
Supplies and expenses, net	257,227	63,705
	<u>990,516</u>	<u>175,194</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
ASSISTED LIVING		
Salaries	\$ —	\$ 48,803
Payroll taxes	—	6,758
Supplies and expenses	—	<u>1,263</u>
	<u>—</u>	<u>56,824</u>
SOCIAL SERVICES		
Salaries	154,300	149,082
Payroll taxes	20,154	19,494
Supplies and expenses	655	<u>2,473</u>
	<u>175,109</u>	<u>171,049</u>
HEALTH INFORMATION MANAGEMENT		
Salaries	395,405	379,570
Payroll taxes	51,527	49,090
Supplies and expenses	<u>117,348</u>	<u>71,620</u>
	<u>564,280</u>	<u>500,280</u>
 Totals	 <u>\$9,339,359</u>	 <u>\$7,755,400</u>

**Skiff Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
NUTRITION/WELLNESS		
Salaries	\$ 660,168	\$ 633,670
Payroll taxes	83,494	80,364
Food	317,502	310,740
Supplies and expenses	<u>42,785</u>	<u>27,349</u>
	<u>1,103,949</u>	<u>1,052,123</u>
OPERATION OF PLANT		
Salaries	348,062	321,442
Payroll taxes	45,833	42,037
Repairs and maintenance	179,842	190,997
Utilities	789,270	788,325
Supplies and expenses	<u>31,431</u>	<u>19,792</u>
	<u>1,394,438</u>	<u>1,362,593</u>
HOUSEKEEPING		
Salaries	346,151	352,819
Payroll taxes	45,396	45,741
Supplies and expenses	<u>57,627</u>	<u>54,694</u>
	<u>449,174</u>	<u>453,254</u>
LAUNDRY AND LINEN		
Salaries	135,784	121,797
Payroll taxes	17,465	15,739
Supplies and expenses	<u>21,235</u>	<u>23,367</u>
	<u>174,484</u>	<u>160,903</u>
OUTREACH		
Salaries	36,777	43,169
Payroll taxes	5,222	6,112
Supplies and expenses	<u>6,996</u>	<u>7,862</u>
	<u>48,995</u>	<u>57,143</u>
 Totals	 <u>\$3,171,040</u>	 <u>\$3,086,016</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Salaries	\$1,808,323	\$1,661,818
Payroll taxes	219,059	205,816
Communications	93,385	74,975
Supplies and purchased services	724,356	671,757
Professional fees	102,272	112,631
Physician recruitment	-	63,976
Training and education	52,789	22,466
Collection fees	25,318	38,955
Dues, subscriptions and licenses	48,780	43,983
Other expenses	<u>94,286</u>	<u>74,201</u>
	<u>3,168,568</u>	<u>2,970,578</u>
UNASSIGNED EXPENSES		
Employee benefits		
Workers' compensation insurance	209,464	251,043
Health insurance	2,239,487	1,530,230
Unemployment compensation	16,150	11,588
Long-term disability insurance	44,174	42,349
Life insurance	18,017	15,886
Other	36,111	4,438
Insurance		
Liability and property insurance	<u>221,297</u>	<u>212,365</u>
	<u>2,784,700</u>	<u>2,067,899</u>
 Totals	 <u>\$5,953,268</u>	 <u>\$5,038,477</u>

**Skiff Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Medical and surgical	6,492	6,193
Obstetric	676	681
Coronary care	458	396
Swing bed, skilled care	543	978
Nursery	578	577
Hospice	<u>1,192</u>	<u>1,164</u>
Totals	<u>9,939</u>	<u>9,989</u>
ASSISTED LIVING UNIT DAYS	<u>—</u>	<u>479</u>
RESPITE DAYS	<u>4</u>	<u>33</u>
ADMISSIONS		
Acute	2,225	2,219
Swing bed	<u>132</u>	<u>215</u>
Totals	<u>2,357</u>	<u>2,434</u>
DISCHARGES		
Acute	2,240	2,213
Swing bed	<u>131</u>	<u>215</u>
Totals	<u>2,371</u>	<u>2,428</u>
AVERAGE LENGTH OF STAY		
Acute	3.40	3.29
Swing bed	4.15	4.55
BEDS, ACUTE	68	68
OCCUPANCY PERCENT, ACUTE	30.7%	29.3%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$90,378</u>	<u>\$80,918</u>
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	<u>58</u>	<u>55</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, 2006, and have issued our report thereon dated August 4, 2006. 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, 2006 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 4, 2006

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

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, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A 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, 2006.

06-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

06-II-C TRAVEL EXPENSES

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

06-II-D BUSINESS TRANSACTIONS

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

06-II-E BOARD MINUTES

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

06-II-F 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.