

**Skiff Medical Center
Newton, Iowa**

FINANCIAL REPORT

June 30, 2007

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**Skiff Medical Center
OFFICIALS**

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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, 2007 and 2006, 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, 2007 and 2006, 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 September 21, 2007 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
September 21, 2007

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, 2007, 2006 and 2005. 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 \$985,000 to \$36,550,000 in Fiscal Year (FY) '07, following a increase of \$172,000 in FY '06.
- Total assets whose use is limited increased \$774,000 during FY '07, following a \$1.0 million increase in FY '06.
- Total property and equipment, net of depreciation, decreased by \$747,000 in FY '07 and decreased by \$1,642,000 in FY '06.
- Fund equity increased by \$1,583,000 in FY '07 and increased by \$1,365,000 in FY '06
- Net patient service revenue increased by \$1,912,000 to \$34,900,000 during FY '07. The increase for fiscal year '06 was \$3,453,000.
- Operating expenses increased by \$2,428,000 in FY '07 and by \$4,155,000 in FY '06.
- Total margin for FY 2007 was 4.4%, compared to 4.0% for FY 2006.

Inpatient utilization increased slightly during the year, after remaining relatively flat in 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, emergency room, laboratory, and radiology and outreach clinics during FY '07. Provision for bad debt increased between FY '06 and FY '07 from \$1,064,000 to \$1,787,000.

The overall expense increase during FY '07 was driven by increases in salary and benefit expense, which represents nearly 66% of our total expenses. In addition to adding staff for an outreach clinic in Baxter, the shortage of healthcare workers continues to drive market increases in salaries. Although the Medical Center 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 9.5%.

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, 2007, 2006 and 2005, are presented in Table 1 below.

Table 1
Condensed Balance Sheets
(in Thousands)

	June 30, 2007	June 30, 2006	June 30, 2005	FY '06 to FY' 07 \$ Change	FY '06 to FY' 07 % Change	FY '05 to FY' 06 \$ Change	FY '05 to FY' 06 % Change
Current and other assets	\$15,724	\$13,992	\$12,177	\$1,732	12.4	\$1,814	14.9
Capital assets	20,826	21,574	23,216	(747)	(3.5)	(1,642)	(7.1)
Total Assets	\$36,550	\$35,565	\$35,393	985	2.8	\$172	0.5
Long-term debt outstanding	\$620	\$1,483	\$2,534	(\$863)	(58.2)	(\$1,051)	(41.5)
Other liabilities	3,719	3,454	3,596	264	7.6	(\$142)	(3.9)
Total liabilities	\$4,339	\$4,937	\$6,130	(\$599)	(12.1)	(\$1,193)	(19.5)
Invested in capital assets, net of related debt	\$19,326	\$19,008	\$19,445	\$319	1.7	(\$437)	(2.2)
Unrestricted	12,482	11,229	9,436	1,253	11.2	1,793	19.0
Restricted	403	392	382	12	3.0	9	2.5
Total net assets	\$32,211	\$30,628	\$29,263	\$1,583	5.2	\$1,365	4.7

As can be seen in Table 1, net assets increased by \$1,583,000 to \$32.2 million in FY 2007. Net assets at the end of FY '06 and FY '05 were \$30.6 million and \$29.3 million, respectively. The FY '07 increase was due to increases in cash reserves held for future cash flow needs, an increase in patient receivables and an increase in the expected future value of the beneficial interest in a remainder trust.

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, 2007, 2006 and 2005.

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

	Year ended June 30,		
	2007	2006	2005
Net patient service revenue	34,900	32,988	29,535
Other operating revenue	1,456	1,357	1,304
Total revenue	<u>\$36,356</u>	<u>\$34,345</u>	<u>\$30,839</u>
Operating expenses:			
Nursing service	12,852	11,801	10,071
Other professional service	10,309	9,409	7,755
General service	3,418	3,171	3,086
Fiscal and administrative service and unassigned expenses	6,400	5,884	5,038
Provision for depreciation and amortization	2,718	3,004	3,163
Total operating expenses	<u>35,696</u>	<u>33,268</u>	<u>29,113</u>
Operating income	660	1,076	1,726
Non-operating gain (loss)	866	127	(509)
Excess of revenues over expenses before contributions	1,526	1,203	1,217
Contributions	57	162	464
Changes in fund equity	1,583	1,365	1,681
Total fund equity, beginning	<u>30,628</u>	<u>29,263</u>	<u>27,582</u>
Total fund equity, ending	<u>\$32,211</u>	<u>\$30,628</u>	<u>\$29,263</u>

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2007, June 30, 2006 and June 30, 2005.

Volume: Inpatient acute admissions (excluding normal newborns) for fiscal year 2007 were 2,290 compared to 2,225 in fiscal year 2006 and 2,219 in fiscal year 2005. The average length of stay has remained fairly steady, ranging between 3.29 and 3.5 during fiscal years 2005 through 2007. Total patient days have increased from 9,939 to 10,124 during this same time period. Inpatient surgical visits have increased the past three 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 \$1.9 million, or 5.8% in comparison to fiscal year 2006. Outpatient revenue represented 58% of our gross patient service revenue and experienced 10.8% growth for FY '07 and 18.5% growth for FY '06. Inpatient revenue, representing 38% of our gross patient service revenue, experienced growth of 9% for FY '07 and 18% for FY '06. 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, 2007, 2006 and 2005.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2007	2006	2005
Medicare	43.2%	44.1%	44.6%
Wellmark	23.4%	25.2%	26.1%
Commercial	17.3%	15.5%	13.8%
Medicaid	8.6%	8.3%	7.3%
Self Pay	4.7%	4.0%	3.6%
All other	2.8%	2.9%	4.6%
Total	100.0%	100.0%	100.0%

Other Operating Revenue: The increase of \$99,800 in FY '07 was driven primarily by increases in wellness/nutrition counseling services, wellness grant dollars and contributions. In previous years, other operating revenue increased by \$53,000 due to increases in contributions, grant funding and lifeline services.

Nursing Service Expenses: Market-driven salary increases for nursing staff, the use of agency staff and expenses in the intensive care and emergency departments drove increases of \$1,051,000, or 9% in FY '07, and \$1,730,000, or 17% in FY '06 nursing service expenses.

Other Professional Service Expenses: Expenses in this category increased \$900,000 during FY '07. The increase in FY'07 was driven by volume increases in radiology and laboratory as well as staffing increases in anesthesiology. Included in this category of expenses are the costs associated with hospital ancillary departments, such as anesthesiology, 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 '07 was \$247,000 or 8% in FY '07 and \$85,000 or 3% in FY '06. These recent increases were primarily the result of increased supply and salary expenses in these areas.

Fiscal and Administrative Expenses: During FY '07, the fiscal and administrative expenses increased \$517,000, or 9% after a \$845,000, or 17%, increase in FY'06. Increased employee expenses and purchased professional services 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 \$1,032,000 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 \$866,000 in FY '07 and \$127,000 in FY '06. 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 \$430,000 during FY '07 and \$164,000 in fiscal year 2006. 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 2007, the Medical Center had invested \$20.8 million in capital assets as shown in Table 5. The Medical Center added \$1.6 million in capital assets during FY'07, but this increase was offset by depreciation on assets purchased in prior years, resulting in a net decrease of \$747,000 in net capital assets. In FY'06, \$1.1 million in capital assets were added, but was also offset by increased depreciation. 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, 2007, 2006 and 2005.

Table 5

**Capital Assets
(in Thousands)**

	2007	2006	2005	Change from '06 to '07	Change from '05 to '06
Land	\$2,126	\$2,073	\$2,073	\$53	\$0
Land improvements	2,235	2,216	2,198	18	18
Buildings	19,799	19,654	19,854	145	(199)
Fixed equipment	6,595	6,469	6,406	126	63
Major movable equipment	11,371	10,241	7,977	1,130	2,264
Construction in progress	610	0	76	610	(76)
Assets held under capital lease obligations	3,050	3,572	4,536	(521)	(964)
Subtotal	45,786	44,225	43,120	1,560	1,105
Less accumulated depreciation	(23,093)	(20,867)	(18,005)	(2,227)	(2,861)
Less accumulated amortization on assets held under capital leases	(1,866)	(1,785)	(1,899)	(81)	114
Property, plant and equipment, net	\$20,826	\$21,574	\$23,216	(\$747)	(\$1,642)

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Medical Center had \$485,000 million in short- and long-term debt related to Hospital Revenue Bonds. This has decreased by \$475,000 from \$960,000 at the end of fiscal year 2006, which was the amount of principal payments on outstanding debt for fiscal year 2007. 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 14% of the Medical Center's total liabilities as of June 30, 2007, down from 30% at the prior fiscal year-end. The decrease was due to several lease obligations that were completed during FY'07 and also the continued repayment of bond financing.

Capital Leases

At year-end, the Medical Center had \$1.0 million in short- and long-term capital lease obligations. This has decreased \$602,000 from fiscal year-end 2006. 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 23.5% of the Medical Center's total liabilities as of fiscal year-end '07, compared to 33% at June 30, 2006.

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	
	2007	2006
CURRENT ASSETS		
Cash	\$ 905,652	\$ 660,679
Assets whose use is limited, required for current liabilities	378,849	369,441
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,546,252	5,200,075
Inventories	489,616	495,958
Prepaid expenses	238,769	222,850
Other current assets	147,478	109,676
Total current assets	7,706,616	7,058,679
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	93,123	67,010
Certificates of deposit	3,700,000	3,400,000
Marketable equity securities	2,635,592	2,203,576
Accrued interest receivable	49,034	45,252
	6,477,749	5,715,838
Restricted under loan agreement		
Cash, revenue note sinking fund	93,849	84,441
Certificate of deposit, debt service reserve fund	285,000	285,000
	378,849	369,441
Restricted by donors for specific purpose		
Certificate of deposit	24,400	22,100
Total assets whose use is limited	6,880,998	6,107,379
Less current portion	378,849	369,441
Noncurrent assets whose use is limited	6,502,149	5,737,938
BENEFICIAL INTEREST IN REMAINDER TRUST		
	1,515,000	1,195,000
PROPERTY AND EQUIPMENT		
Less accumulated depreciation and amortization	45,785,584	44,225,128
Total property and equipment	24,959,276	22,651,339
	20,826,308	21,573,789
Totals	\$36,550,073	\$35,565,406

See Notes to Financial Statements.

	LIABILITIES AND FUND EQUITY	
	June 30	
	2007	2006
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 879,896	\$ 1,083,268
Accounts payable, trade	462,693	428,421
Accrued payroll and payroll taxes	906,307	779,668
Accrued employee benefits	1,456,846	1,092,981
Estimated third-party payor settlements	12,962	70,145
	<u>3,718,704</u>	<u>3,454,483</u>
LONG-TERM DEBT		
Revenue notes payable, net of deferred financing costs	480,664	944,939
Obligations under capital leases	<u>1,019,153</u>	<u>1,621,192</u>
	1,499,817	2,566,131
Less current maturities	<u>879,896</u>	<u>1,083,268</u>
Total long-term debt	<u>619,921</u>	<u>1,482,863</u>
COMMITMENT AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	19,326,491	19,007,658
Restricted		
Nonexpendable permanent endowment	24,400	22,100
Under loan agreement	378,849	369,441
Unrestricted	<u>12,481,708</u>	<u>11,228,861</u>
Total fund equity	<u>32,211,448</u>	<u>30,628,060</u>
	<u>36,550,073</u>	<u>35,565,406</u>
Totals	<u>\$36,550,073</u>	<u>\$35,565,406</u>

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

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2007 \$1,787,118; 2006 \$1,063,682	\$34,899,954	\$32,988,015
OTHER REVENUE	<u>1,456,436</u>	<u>1,356,660</u>
Total revenue	<u>36,356,390</u>	<u>34,344,675</u>
OPERATING EXPENSES		
Nursing service	12,851,619	11,801,044
Other professional service	10,308,506	9,408,860
General service	3,417,595	3,171,040
Fiscal and administrative service and unassigned expenses	6,400,306	5,883,767
Provision for depreciation and amortization	<u>2,718,433</u>	<u>3,003,606</u>
Total operating expenses	<u>35,696,459</u>	<u>33,268,317</u>
Operating income	<u>659,931</u>	<u>1,076,358</u>
NONOPERATING GAINS (LOSSES)		
Investment income	298,326	195,193
Interest expense	(93,949)	(205,183)
Net increase in the fair value of investments	429,886	163,730
Change in value of split-interest agreement	320,000	20,000
Unrestricted contributions	570	2,715
Transfers to related foundation	(95,000)	(60,000)
Gain (loss) on disposal of assets	<u>6,324</u>	<u>10,543</u>
Total nonoperating gains (losses)	<u>866,157</u>	<u>126,998</u>
Excess of revenues over expenses before contributions	1,526,088	1,203,356
RESTRICTED CONTRIBUTIONS	<u>57,300</u>	<u>161,600</u>
Change in fund equity	1,583,388	1,364,956
TOTAL FUND EQUITY		
Beginning	<u>30,628,060</u>	<u>29,263,104</u>
Ending	<u>\$32,211,448</u>	<u>\$30,628,060</u>

**Skiff Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$34,496,594	\$32,201,003
Cash paid to suppliers for goods and services	(14,920,291)	(14,566,970)
Cash paid to employees for services	(17,541,592)	(15,706,410)
Home health services grants received	346,896	323,398
Contributions received for expenses of hospice services	133,516	123,368
Other operating revenue received	<u>938,222</u>	<u>917,546</u>
Net cash provided by operating activities	<u>3,453,345</u>	<u>3,291,935</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	570	2,715
Transfers to related foundation	(95,000)	(60,000)
Endowments received	<u>2,300</u>	<u>2,100</u>
Net cash (used in) noncapital financing activities	<u>(92,130)</u>	<u>(55,185)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,077,039)	(1,221,404)
Interest paid on long-term debt	(84,168)	(189,058)
Acquisition of property and equipment	(2,120,758)	(1,699,627)
Proceeds from sale of property and equipment	156,130	348,519
Contributions received, restricted for purchase of property and equipment	<u>55,000</u>	<u>159,500</u>
Net cash (used in) capital and related financing activities	<u>(3,070,835)</u>	<u>(2,602,070)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(7,294,400)	(7,392,100)
Proceeds from maturities of certificates of deposit	6,992,100	6,590,000
Purchase of marketable securities	(781,846)	(2,796,672)
Proceeds from sale of marketable securities	779,716	2,715,321
Interest and dividends received	<u>294,544</u>	<u>172,686</u>
Net cash (used in) investing activities	<u>(9,886)</u>	<u>(710,765)</u>
NET INCREASE (DECREASE) IN CASH	280,494	(76,085)
CASH		
Beginning	<u>812,130</u>	<u>888,215</u>
Ending	<u>\$ 1,092,624</u>	<u>\$ 812,130</u>

See Notes to Financial Statements.

Skiff Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 659,931	\$1,076,358
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,718,433	3,003,606
Change in assets and liabilities		
(Increase) in patient receivables	(346,177)	(742,505)
(Increase) decrease in inventories	6,342	(52,257)
(Increase) decrease in other current assets	(37,802)	7,652
(Increase) in prepaid expenses	(15,919)	(13,664)
Increase (decrease) in accounts payable, trade, net of amount related to purchase of property and equipment	35,216	(61,620)
Increase in accrued payroll and payroll taxes	126,639	153,539
Increase (decrease) in accrued employee benefits	363,865	(34,667)
(Decrease) in net estimated third-party payor settlements	<u>(57,183)</u>	<u>(44,507)</u>
Net cash provided by operating activities	<u>\$3,453,345</u>	<u>\$3,291,935</u>
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 905,652	\$ 660,679
Assets whose use is limited		
By board for plant replacement and expansion, cash	93,123	67,010
Under loan agreement for revenue bond, sinking fund, cash	<u>93,849</u>	<u>84,441</u>
Total per statement of cash flows	<u>\$1,092,624</u>	<u>\$ 812,130</u>

**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.

Reclassification

Certain reclassifications have been made in the June 30, 2006 financial statements to conform to the June 30, 2007 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2007 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, 2007 are as follows:

	<u>Fair value</u>
Equity mutual funds	<u>\$2,635,592</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:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Receivable from patients	\$2,031,055	\$1,699,121
Receivable from insurance carriers	3,338,866	3,337,906
Receivable from Medicare	2,776,578	2,351,280
Receivable from Medicaid	<u>783,068</u>	<u>822,793</u>
Total patient receivables	8,929,567	8,211,100
Less allowances for contractual adjustments and uncollectibles	<u>3,383,315</u>	<u>3,011,025</u>
Net patient receivables	<u>\$5,546,252</u>	<u>\$5,200,075</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, 2007</u>		<u>June 30, 2006</u>	
	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>
Land	\$ 2,126,033	\$ —	\$ 2,073,418	\$ —
Land improvements	2,234,571	1,506,765	2,216,374	1,403,594
Buildings	19,799,012	8,831,906	19,654,368	7,979,298
Fixed equipment	6,594,595	4,226,991	6,468,702	3,940,841
Major movable equipment including equipment under capital lease 2007 \$3,050,165; 2006 \$3,571,538	14,421,195	10,393,614	13,812,266	9,327,606
Construction in progress	<u>610,178</u>	<u>—</u>	<u>—</u>	<u>—</u>
Totals	<u>\$45,785,584</u>	<u>\$24,959,276</u>	<u>\$44,225,128</u>	<u>\$22,651,339</u>

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to \$2,115,884 and \$2,153,431, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2007 and 2006 amounted to \$602,549 and \$850,175, respectively. Accumulated amortization on these assets totaled \$1,865,968 and \$1,784,793 at June 30, 2007 and 2006, respectively.

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 2,073,418	\$ —	\$ —	\$ 52,615	\$ 2,126,033
Land improvements	2,216,374	18,197	—	—	2,234,571
Buildings	19,654,368	36,184	(205,153)	313,613	19,799,012
Fixed equipment	6,468,702	125,893	—	—	6,594,595
Major movable equipment including equipment under capital lease	13,812,266	949,653	(355,149)	14,425	14,421,195
Construction in progress	<u>—</u>	<u>990,831</u>	<u>—</u>	<u>(380,653)</u>	<u>610,178</u>
Totals	44,225,128	2,120,758	(560,302)	—	45,785,584
Less accumulated depreciation and amortization	<u>(22,651,339)</u>	<u>(2,718,433)</u>	<u>410,496</u>	<u>—</u>	<u>(24,959,276)</u>
Net property and equipment	<u>\$21,573,789</u>	<u>\$ (597,675)</u>	<u>\$ (149,806)</u>	<u>\$ —</u>	<u>\$20,826,308</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, 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>

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, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Hospital Revenue Refunding Notes, Series 2003	\$ 485,000	\$ 960,000
Obligations under capital leases	<u>1,019,153</u>	<u>1,621,192</u>
	1,504,153	2,581,192
Less deferred financing costs	4,336	15,061
Less current maturities	<u>879,896</u>	<u>1,083,268</u>
Long-term debt, net of current maturities	<u>\$ 619,921</u>	<u>\$1,482,863</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 \$240,000 to \$245,000 through June 2008 with interest payable semiannually at 2.60 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 5.2 percent.

The leases require various monthly payments of \$2,964 to \$13,652, with lease terms expiring between September 2007 and October 2014. At June 30, 2007, the aggregate monthly payment for all capital leases is \$49,649.

Principal and interest maturities of the debt outstanding at June 30, 2007 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 879,896	\$ 52,880	\$ 932,776
2009	242,678	25,087	267,765
2010	88,051	16,397	104,448
2011	62,217	13,127	75,344
2012	65,213	10,131	75,344
2013-2015	<u>166,098</u>	<u>8,772</u>	<u>174,870</u>
Totals	<u>\$1,504,153</u>	<u>\$ 126,394</u>	<u>\$1,630,547</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, 2007 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	\$ 960,000	\$ —	\$ 475,000	\$ 485,000	\$ 485,000
Obligations under capital leases	<u>1,621,192</u>	<u>—</u>	<u>602,039</u>	<u>1,019,153</u>	<u>394,896</u>
Totals	<u>\$2,581,192</u>	<u>\$ —</u>	<u>\$1,077,039</u>	<u>\$1,504,153</u>	<u>\$ 879,896</u>

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>

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, 2007 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, 2007, 2006 and 2005 were \$988,461, \$904,265 and \$806,679, 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, 2007 and 2006 was \$2,146,648 and \$2,239,487, 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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Charges foregone, based on established rates	\$ <u>829,426</u>	\$ <u>675,031</u>
Equivalent percentage of charity care patients to all patients served	<u>1.3%</u>	<u>1.2%</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 \$55,000 and \$132,000 to the Medical Center during the years ended June 30, 2007 and 2006, respectively, for the Medical Center's hospice wing and other capital projects. Additionally, \$95,000 and \$60,000 was transferred from the Medical Center to the Foundation during the years ended June 30, 2007 and 2006, 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, 2007 totals	\$ <u>35,696,459</u>	\$ <u>93,949</u>	\$ <u>35,790,408</u>	\$ <u>59,100,000</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.

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, 2007 and 2006 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
September 21, 2007

**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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$5,144,152	\$5,045,348	57.7%	61.4%
31 - 60 days	1,173,856	1,000,865	13.1	12.2
61 - 90 days	722,882	520,818	8.1	6.3
91 - 120 days	398,260	499,413	4.5	6.1
121 - 365 days	1,173,484	958,069	13.1	11.7
Over one year	<u>316,933</u>	<u>186,587</u>	<u>3.5</u>	<u>2.3</u>
Totals	<u>8,929,567</u>	<u>8,211,100</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,401,265	1,284,265		
Medicaid	373,867	410,867		
Blue Cross	507,000	531,000		
Other	216,362	123,362		
Uncollectibles	<u>884,821</u>	<u>661,531</u>		
Total allowances	<u>3,383,315</u>	<u>3,011,025</u>		
Totals	<u>\$5,546,252</u>	<u>\$5,200,075</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$ 661,531	\$ 444,762		
ADD				
Provision for bad debts	1,787,118	1,063,682	5.1%	3.2%
Recoveries of accounts previously written off	471,909	456,318	1.4	1.4
LESS				
Accounts written off	<u>(2,035,737)</u>	<u>(1,303,231)</u>	5.8	4.0
BALANCE , ending	<u>\$ 884,821</u>	<u>\$ 661,531</u>		
COLLECTION FEES	<u>\$ 44,436</u>	<u>\$ 25,318</u>	.1	.1

**Skiff Medical Center
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
DAILY PATIENT SERVICES		
Medical and surgical	\$ 5,961,000	\$ 5,328,167
Obstetric	585,140	576,612
Coronary care	774,959	639,912
Swing bed		
Skilled care	174,420	171,045
Nursery	<u>261,975</u>	<u>283,220</u>
	<u>7,757,494</u>	<u>6,998,956</u>
OTHER NURSING SERVICES		
Operating rooms	10,468,003	10,014,645
Recovery rooms	1,244,809	1,122,550
Delivery and labor rooms	479,932	419,709
Emergency services	6,295,013	5,728,714
Home health services		
Skilled nursing	874,628	898,239
Aides	558,006	472,748
Other	97,402	83,163
Hospice services	<u>1,266,890</u>	<u>787,033</u>
	<u>21,284,683</u>	<u>19,526,801</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	4,497,037	3,988,574
Blood transfusions	318,086	278,590
Electrocardiology and cardiovascular	1,260,546	1,129,939
Sleep disorder	322,810	295,410
Electroencephalography	23,338	20,664
Radiology and mammography	2,851,281	2,585,450
CT scans	4,045,197	3,036,214
Nuclear scans and ultrasound	3,063,619	2,656,745
Magnetic resonance imaging	2,278,652	2,134,659
Pharmacy	4,982,959	4,569,952
Intravenous therapy	236,209	198,583
Anesthesiology	4,199,386	3,832,084
Physical therapy	2,441,839	2,688,382
Occupational therapy	382,383	465,285
Respiratory therapy	1,661,664	1,566,844
Speech therapy	286,965	286,811
Audiology	348,056	400,469
Cardiac rehabilitation	227,130	200,478
Enterostomal	45,690	4,172
Occupational health	165,113	146,003
Alternative health services	33,083	40,207
Clinics	1,907,868	1,430,064
Sports rehabilitation	<u>108,001</u>	<u>—</u>
	<u>35,686,912</u>	<u>31,955,579</u>
Totals	64,729,089	58,481,336
Charity care charges foregone, based on established rates	<u>(829,426)</u>	<u>(675,031)</u>
Total gross patient service revenue	63,899,663	57,806,305
Provisions for contractual adjustments and bad debts	<u>(28,999,709)</u>	<u>(24,818,290)</u>
Total net patient service revenue	<u>\$34,899,954</u>	<u>\$32,988,015</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
\$ 5,814,812	\$ 5,153,891	\$ 146,188	\$ 174,276	\$ -	\$ -
580,304	571,585	4,836	5,027	-	-
774,857	639,086	102	826	-	-
174,420	171,045	-	-	-	-
261,975	283,220	-	-	-	-
<u>7,606,368</u>	<u>6,818,827</u>	<u>151,126</u>	<u>180,129</u>	<u>-</u>	<u>-</u>
4,845,937	4,801,233	5,622,066	5,213,412	-	-
287,892	266,450	956,917	856,100	-	-
250,314	251,658	229,618	168,051	-	-
1,338,380	1,166,613	4,956,633	4,562,101	-	-
-	-	-	-	874,628	898,239
-	-	-	-	558,006	472,748
-	-	-	-	97,402	83,163
330,965	302,305	-	-	935,925	484,728
<u>7,053,488</u>	<u>6,788,259</u>	<u>11,765,234</u>	<u>10,799,664</u>	<u>2,465,961</u>	<u>1,938,878</u>
1,727,383	1,517,596	2,769,654	2,470,978	-	-
159,538	167,330	158,548	111,260	-	-
348,539	331,107	912,007	798,832	-	-
-	-	322,810	295,410	-	-
4,913	1,914	18,425	18,750	-	-
403,204	376,271	2,448,077	2,209,179	-	-
975,603	722,579	3,069,594	2,313,635	-	-
208,453	203,807	2,855,166	2,452,938	-	-
167,201	154,066	2,111,451	1,980,593	-	-
2,692,139	2,358,719	2,290,820	2,211,233	-	-
180,468	146,202	55,741	52,381	-	-
1,209,832	1,139,610	2,989,554	2,692,474	-	-
231,709	267,851	2,070,107	2,272,947	140,023	147,584
71,863	74,395	269,767	334,976	40,753	55,914
1,364,981	1,285,146	296,683	281,698	-	-
33,199	29,160	240,676	246,733	13,090	10,918
9,950	11,057	338,106	389,412	-	-
-	-	227,130	200,478	-	-
10,604	-	35,086	4,172	-	-
-	-	165,113	146,003	-	-
-	-	33,083	40,207	-	-
-	-	1,907,868	1,430,064	-	-
-	-	108,001	-	-	-
<u>9,799,579</u>	<u>8,786,810</u>	<u>25,693,467</u>	<u>22,954,353</u>	<u>193,866</u>	<u>214,416</u>
<u>\$24,459,435</u>	<u>\$22,393,896</u>	<u>\$37,609,827</u>	<u>\$33,934,146</u>	<u>\$2,659,827</u>	<u>\$2,153,294</u>

Skiff Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments		
Medicare	\$16,302,250	\$14,944,651
Medicaid	3,754,041	3,342,508
Blue Cross	5,049,621	4,178,393
Commercial Insurance	2,001,771	1,146,207
Provision for bad debts	1,787,118	1,063,682
Administrative adjustments	<u>104,908</u>	<u>142,849</u>
 Totals	 <u>\$28,999,709</u>	 <u>\$24,818,290</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Revenues for expenses of home health services		
Jasper County	\$ 150,055	\$ 143,598
Iowa State Department of Health and others	<u>196,841</u>	<u>179,800</u>
Subtotals	346,896	323,398
 Contributions for expenses of hospice services	 133,516	 123,368
Cafeteria, diet instructions and dietary consulting services	292,774	256,309
Facilities management	275,889	295,293
Lifeline rental	97,455	87,396
Other	240,373	181,651
Pharmacy, employee, net	470	(537)
Respite	350	700
Clinic rental, net of expense	<u>68,713</u>	<u>89,082</u>
 Totals	 <u>\$1,456,436</u>	 <u>\$1,356,660</u>

**Skiff Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
ADMINISTRATIVE		
Salaries	\$ 667,187	\$ 575,742
Payroll taxes	87,357	76,522
Supplies and expenses	<u>38,188</u>	<u>30,151</u>
	<u>792,732</u>	<u>682,415</u>
MEDICAL AND SURGICAL		
Salaries	1,719,251	1,617,516
Payroll taxes	224,647	212,567
Purchased services	521,352	566,458
Supplies and expenses	<u>127,422</u>	<u>166,871</u>
	<u>2,592,672</u>	<u>2,563,412</u>
OBSTETRIC, NURSERY, DELIVERY AND LABOR		
Salaries	554,155	500,377
Payroll taxes	71,119	64,174
Purchased services	145,253	154,112
Supplies and expenses	<u>61,825</u>	<u>50,850</u>
	<u>832,352</u>	<u>769,513</u>
CORONARY CARE		
Salaries	261,809	226,578
Payroll taxes	34,907	30,165
Purchased services	163,763	105,661
Supplies and expenses	<u>9,630</u>	<u>18,479</u>
	<u>470,109</u>	<u>380,883</u>
OPERATING AND RECOVERY ROOMS		
Salaries	929,526	790,474
Payroll taxes	120,005	103,853
Purchased services	67,041	27,802
Supplies and expenses	<u>1,901,925</u>	<u>1,920,985</u>
	<u>3,018,497</u>	<u>2,843,114</u>
CENTRAL SERVICES		
Salaries	52,671	37,223
Payroll taxes	6,770	4,914
Supplies and expenses	<u>115,198</u>	<u>111,209</u>
	<u>174,639</u>	<u>153,346</u>
EMERGENCY SERVICES		
Salaries	2,056,472	1,779,577
Payroll taxes	219,734	209,245
Professional fees	195,464	113,424
Supplies and expenses	<u>108,794</u>	<u>109,984</u>
	<u>2,580,464</u>	<u>2,212,230</u>
HOME HEALTH SERVICES		
Salaries	937,525	901,975
Payroll taxes	121,595	117,599
Supplies and expenses	<u>215,734</u>	<u>151,040</u>
	<u>1,274,854</u>	<u>1,170,614</u>
HOSPICE SERVICES		
Salaries	780,127	717,771
Payroll taxes	100,457	93,604
Supplies and expenses	<u>234,716</u>	<u>214,142</u>
	<u>1,115,300</u>	<u>1,025,517</u>
Totals	<u>\$12,851,619</u>	<u>\$11,801,044</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
LABORATORY		
Salaries	\$ 637,729	\$ 585,198
Payroll taxes	81,155	75,998
Professional fees	222,509	205,505
Blood	254,781	239,561
Supplies and expenses	<u>357,596</u>	<u>326,443</u>
	<u>1,553,770</u>	<u>1,432,705</u>
ELECTROCARDIOLOGY		
Salaries	17,706	16,979
Payroll taxes	2,449	2,332
Professional fees	25,703	22,881
Supplies and expenses	<u>2,882</u>	<u>4,966</u>
	<u>48,740</u>	<u>47,158</u>
SLEEP DISORDER		
Salaries	2,613	2,587
Payroll taxes	349	341
Professional fees	<u>96,750</u>	<u>112,500</u>
	<u>99,712</u>	<u>115,428</u>
ELECTROENCEPHALOGRAPHY		
Professional fees	<u>4,200</u>	<u>4,129</u>
RADIOLOGY		
Salaries	943,700	873,094
Payroll taxes	121,169	114,317
Supplies and expenses	559,043	509,687
Professional fees	<u>95,325</u>	<u>70,560</u>
	<u>1,719,237</u>	<u>1,567,658</u>
PHARMACY		
Salaries	358,885	296,210
Payroll taxes	46,858	37,594
Drugs	813,510	798,860
Intravenous solutions	4,487	2,663
Supplies and expenses	<u>39,564</u>	<u>23,717</u>
	<u>1,263,304</u>	<u>1,159,044</u>
ANESTHESIOLOGY		
Salaries	706,754	636,257
Payroll taxes	75,258	67,736
Professional fees	152,917	21,915
Supplies and expenses	<u>68,823</u>	<u>67,190</u>
	<u>1,003,752</u>	<u>793,098</u>
PHYSICAL THERAPY		
Salaries	849,880	869,206
Payroll taxes	108,821	111,944
Supplies and expenses	<u>131,047</u>	<u>145,743</u>
	<u>1,089,748</u>	<u>1,126,893</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
OCCUPATIONAL THERAPY		
Salaries	\$ 89,280	\$ 110,204
Payroll taxes	11,737	14,129
Supplies and expenses	<u>14,226</u>	<u>17,610</u>
	<u>115,243</u>	<u>141,943</u>
RESPIRATORY THERAPY		
Salaries	266,657	263,966
Payroll taxes	34,180	34,306
Supplies and expenses	<u>49,037</u>	<u>58,557</u>
	<u>349,874</u>	<u>356,829</u>
SPEECH THERAPY		
Salaries	78,603	62,448
Payroll taxes	10,107	8,157
Supplies and expenses	<u>2,851</u>	<u>28,650</u>
	<u>91,561</u>	<u>99,255</u>
AUDIOLOGY		
Salaries	87,885	88,802
Payroll taxes	11,027	11,187
Supplies and expenses	<u>148,008</u>	<u>157,108</u>
	<u>246,920</u>	<u>257,097</u>
CARDIAC REHABILITATION		
Salaries	107,289	104,182
Payroll taxes	13,573	13,449
Supplies and expenses	<u>5,403</u>	<u>7,762</u>
	<u>126,265</u>	<u>125,393</u>
ENTEROSTOMAL		
Salaries	47,342	36,073
Payroll taxes	6,713	4,769
Professional fees	<u>1,367</u>	<u>1,812</u>
	<u>55,422</u>	<u>42,654</u>
OCCUPATIONAL HEALTH		
Salaries	192,803	184,952
Payroll taxes	24,368	23,438
Physicians' fees	56,933	45,150
Supplies and expenses	<u>39,737</u>	<u>33,343</u>
	<u>313,841</u>	<u>286,883</u>
ALTERNATIVE HEALTH SERVICES		
Salaries	49,634	45,557
Payroll taxes	5,644	6,073
Supplies and expenses	<u>2,334</u>	<u>1,657</u>
	<u>57,612</u>	<u>53,287</u>
CLINICS		
Salaries	895,759	708,949
Payroll taxes	101,435	88,823
Supplies and expenses, net	<u>306,714</u>	<u>262,245</u>
	<u>1,303,908</u>	<u>1,060,017</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2007	2006
SPORTS REHABILITATION		
Salaries	\$ 37,855	\$ -
Payroll taxes	4,811	-
Supplies and expenses	15,169	-
	57,835	-
SOCIAL SERVICES		
Salaries	162,657	154,300
Payroll taxes	21,150	20,154
Supplies and expenses	7,385	655
	191,192	175,109
HEALTH INFORMATION MANAGEMENT		
Salaries	438,217	395,405
Payroll taxes	56,596	51,527
Supplies and expenses	121,557	117,348
	616,370	564,280
Totals	\$10,308,506	\$9,408,860

**Skiff Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
NUTRITION/WELLNESS		
Salaries	\$ 722,762	\$ 660,168
Payroll taxes	91,641	83,494
Food	333,762	317,502
Supplies and expenses	<u>51,434</u>	<u>42,785</u>
	<u>1,199,599</u>	<u>1,103,949</u>
OPERATION OF PLANT		
Salaries	391,135	348,062
Payroll taxes	51,340	45,833
Repairs and maintenance	206,366	179,842
Utilities	839,302	789,270
Supplies and expenses	<u>23,141</u>	<u>31,431</u>
	<u>1,511,284</u>	<u>1,394,438</u>
HOUSEKEEPING		
Salaries	347,510	346,151
Payroll taxes	46,263	45,396
Supplies and expenses	<u>73,284</u>	<u>57,627</u>
	<u>467,057</u>	<u>449,174</u>
LAUNDRY AND LINEN		
Salaries	136,313	135,784
Payroll taxes	17,472	17,465
Supplies and expenses	<u>24,124</u>	<u>21,235</u>
	<u>177,909</u>	<u>174,484</u>
OUTREACH		
Salaries	44,711	36,777
Payroll taxes	6,061	5,222
Supplies and expenses	<u>10,974</u>	<u>6,996</u>
	<u>61,746</u>	<u>48,995</u>
 Totals	 <u>\$3,417,595</u>	 <u>\$3,171,040</u>

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

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Salaries	\$2,095,829	\$1,751,405
Payroll taxes	254,106	211,494
Communications	88,459	93,385
Supplies and purchased services	868,701	719,338
Professional fees	115,644	102,272
Training and education	22,183	52,789
Collection fees	44,436	25,318
Dues, subscriptions and licenses	44,421	48,780
Other expenses	<u>122,930</u>	<u>94,286</u>
	<u>3,656,709</u>	<u>3,099,067</u>
UNASSIGNED EXPENSES		
Employee benefits		
Workers' compensation insurance	168,734	209,464
Health insurance	2,146,648	2,239,487
Unemployment compensation	8,483	16,150
Long-term disability insurance	86,544	44,174
Life insurance	23,184	18,017
Other	83,160	36,111
Insurance		
Liability and property insurance	<u>226,844</u>	<u>221,297</u>
	<u>2,743,597</u>	<u>2,784,700</u>
 Totals	 <u>\$6,400,306</u>	 <u>\$5,883,767</u>

**Skiff Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Medical and surgical	6,816	6,492
Obstetric	642	676
Coronary care	533	458
Swing bed, skilled care	513	543
Nursery	499	578
Hospice	<u>1,121</u>	<u>1,192</u>
Totals	<u>10,124</u>	<u>9,939</u>
RESPIRE DAYS	<u>2</u>	<u>4</u>
ADMISSIONS		
Acute	2,290	2,225
Swing bed	<u>105</u>	<u>132</u>
Totals	<u>2,395</u>	<u>2,357</u>
DISCHARGES		
Acute	2,291	2,240
Swing bed	<u>103</u>	<u>131</u>
Totals	<u>2,394</u>	<u>2,371</u>
AVERAGE LENGTH OF STAY		
Acute	3.49	3.40
Swing bed	4.98	4.15
BEDS, ACUTE	68	68
OCCUPANCY PERCENT, ACUTE	32.2%	30.7%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$95,616</u>	<u>\$90,378</u>
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	<u>58</u>	<u>58</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, 2007, and have issued our report thereon dated September 21, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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, 2007 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
September 21, 2007

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

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

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-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, 2007.

07-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

07-II-C TRAVEL EXPENSES

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

07-II-D BUSINESS TRANSACTIONS

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

07-II-E BOARD MINUTES

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

07-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.