

**Skiff Medical Center  
Newton, Iowa**

**FINANCIAL REPORT**

**June 30, 2008**

## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| <b>OFFICIALS</b>  | 3           |
| <b>INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS</b>   | 4           |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>   | 5-10        |
| <b>FINANCIAL STATEMENTS</b>   |             |
| Balance sheets  | 11-12       |
| Statements of revenue, expenses, and changes in fund equity   | 13          |
| Statements of cash flows  | 14-15       |
| Notes to financial statements   | 16-25       |
| <b>INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION</b>  | 26          |
| <b>SUPPLEMENTARY INFORMATION, FINANCIAL</b>   |             |
| Analysis of patient receivables   | 27          |
| Analysis of allowance for uncollectibles  | 27          |
| Patient service revenue   | 28-29       |
| Provisions for contractual adjustments and bad debts  | 30          |
| Other revenue   | 30          |
| Nursing service expenses  | 31          |
| Other professional service expenses   | 32-34       |
| General service expenses  | 35          |
| Fiscal and administrative service and unassigned expenses   | 36          |
| Statistics  | 37          |
| <b>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</b> | 38-39       |
| <b>SCHEDULE OF FINDINGS</b>   | 40-41       |

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(Before January 2008)

Term expires

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**VICE-PRESIDENT OF PATIENT CARE SERVICES**

Steve Wilbur

(After January 2008)

Term expires

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January, 2012

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**VICE-PRESIDENT OF PATIENT CARE SERVICES**

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, 2008 and 2007, and the related statements of revenue, 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, 2008 and 2007, 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 October 9, 2008 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  
October 9, 2008

## 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, 2008, 2007 and 2006. 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 decreased by \$1,438,000 to \$35,112,000 in Fiscal Year (FY) '08, following a increase of \$985,000 in FY '07.
- Total assets whose use is limited decreased \$238,000 during FY '08, following a \$774,000 increase in FY '07.
- Total property and equipment, net of depreciation, decreased by \$150,000 in FY '08, following a decrease of \$747,000 in FY '07.
- Fund equity decreased by \$847,000 in FY '08 and increased by \$1,583,000 in FY '07.
- Net patient service revenue decreased by \$897,000 to \$34,002,000 during FY '08. The increase for fiscal year '07 was \$1,912,000.
- Operating expenses increased by \$1,149,000 in FY '08 and by \$2,428,000 in FY '07.
- Total margin for FY 2008 was (2.4%), compared to 4.4% for FY 2007.

Inpatient utilization declined during the year due to a decrease in the availability of orthopedic and general surgeon coverage. The increase in revenue from outpatient visits was driven by volume increases in the emergency room, laboratory and radiology during FY '08. Provision for bad debt decreased between FY '07 and FY '08 from \$1,787,000 to \$1,421,000.

The overall expense increase during FY '08 was driven by increases in salary and benefit expense, which represents nearly 69% of our total expenses. The shortage of healthcare workers continues to drive market increases in salaries. Due to reaching the end of the depreciation life for several pieces of technology-based equipment, depreciation expense decreased 5.0%.

## 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, 2008, 2007 and 2006, are presented in Table 1 below.

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

|                             | June 30,<br>2008 | June 30,<br>2007 | June 30,<br>2006 | FY '07 to<br>FY' 08 \$<br>Change | FY '06 to<br>FY' 07 \$<br>Change | FY '07 to<br>FY' 08 %<br>Change | FY '06 to<br>FY' 07 %<br>Change |
|-----------------------------|------------------|------------------|------------------|----------------------------------|----------------------------------|---------------------------------|---------------------------------|
| Current and other assets    | \$14,436         | \$15,724         | \$13,991         | (\$1,288)                        | \$1,733                          | (8.2)                           | 12.4                            |
| Capital assets              | 20,676           | 20,826           | 21,574           | (150)                            | (748)                            | (0.7)                           | (3.5)                           |
| Total Assets                | \$35,112         | \$36,550         | \$35,565         | (1,438)                          | 985                              | (3.9)                           | 2.8                             |
| Long-term debt outstanding  | \$381            | \$620            | \$1,483          | (\$239)                          | (\$863)                          | (38.5)                          | (58.2)                          |
| Other liabilities           | 3,366            | 3,719            | 3,454            | (353)                            | 265                              | (9.5)                           | 7.6                             |
| Total liabilities           | \$3,747          | \$4,339          | \$4,937          | (\$592)                          | (\$598)                          | (13.6)                          | (12.1)                          |
| Invested in capital assets, |                  |                  |                  |                                  |                                  |                                 |                                 |
| net of related debt         | \$20,052         | \$19,326         | \$19,008         | \$726                            | \$318                            | 3.8                             | 1.7                             |
| Unrestricted                | 11,285           | 12,482           | 11,229           | (1,197)                          | 1,253                            | (9.6)                           | 11.2                            |
| Restricted                  | 27               | 403              | 391              | (376)                            | 12                               | (93.3)                          | 3.1                             |
| Total net assets            | \$31,364         | \$32,211         | \$30,628         | (\$847)                          | \$1,583                          | (2.6)                           | 5.2                             |

As can be seen in Table 1, net assets decreased by \$847,000 to \$31.4 million in FY 2008. Net assets at the end of FY '07 and FY '06 were \$32.2 million and \$30.6 million, respectively. The FY '08 decrease was due to decreases in cash reserves and marketable securities and a decrease in the depreciated value of property and equipment.

## REVENUE, 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, 2008, 2007 and 2006.

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

|   | Year ended June 30, |          |          |
|---|---------------------|----------|----------|
|   | 2008                | 2007     | 2006     |
| Net patient service revenue                               | 34,002              | 34,900   | 32,988   |
| Other operating revenue                                   | 1,543               | 1,456    | 1,357    |
| Total revenue   | \$35,545            | \$36,356 | \$34,345 |
| Operating expenses:                                       |                     |          |          |
| Nursing service   | 12,876              | 12,852   | 11,801   |
| Other professional service                                | 10,684              | 10,308   | 9,409    |
| General service   | 3,548               | 3,418    | 3,171    |
| Fiscal and administrative service and unassigned expenses | 7,155               | 6,400    | 5,884    |
| Provision for depreciation and amortization               | 2,582               | 2,718    | 3,004    |
| Total operating expenses                                  | 36,845              | 35,696   | 33,269   |
| Operating income (loss)                                   | (1,300)             | 660      | 1,076    |
| Non-operating gain (loss)                                 | 378                 | 866      | 127      |
| Excess of revenues over expenses before contributions     | (922)               | 1,526    | 1,203    |
| Restricted contributions                                  | 75                  | 57       | 162      |
| Changes in fund equity                                    | (847)               | 1,583    | 1,365    |
| Total fund equity, beginning                              | 32,211              | 30,628   | 29,263   |
| Total fund equity, ending                                 | \$31,364            | \$32,211 | \$30,628 |

### Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2008, June 30, 2007 and June 30, 2006.

**Volume:** Inpatient acute admissions (excluding normal newborns) for fiscal year 2008 were 2,132 compared to 2,292 in fiscal year 2007 and 2,225 in fiscal year 2006. The average length of stay has remained fairly steady, ranging between 3.39 and 3.48 during fiscal years 2006 through 2008. Total patient days have been between 9,509 and 10,124 during this same time period.

**Net Patient Service Revenue:** Due to decreased orthopedic and general surgery coverage, net patient service revenues decreased by \$898,000, or (2.6%) in comparison to fiscal year 2007. Outpatient revenue represented 59% of our gross patient service revenue and experienced 3.5% growth for FY '08 and 10.8% growth for FY '07. Inpatient revenue, representing 36% of our gross patient service revenue, experienced a decline of (3.1%) for FY '08 following growth of 9.2% for FY '07. The remaining 5% of revenue is generated through Home Health and Hospice.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2008, 2007 and 2006.

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

|            | Year Ended June 30, |        |        |
|------------|---------------------|--------|--------|
|            | 2008                | 2007   | 2006   |
| Medicare   | 43.7%               | 43.2%  | 44.1%  |
| Wellmark   | 21.5%               | 23.4%  | 25.2%  |
| Commercial | 17.8%               | 17.3%  | 15.5%  |
| Medicaid   | 8.6%                | 8.6%   | 8.3%   |
| Self Pay   | 5.3%                | 4.7%   | 4.0%   |
| All other  | 3.1%                | 2.8%   | 2.9%   |
| Total      | 100.0%              | 100.0% | 100.0% |

Other Operating Revenue: The increase of \$86,300 in FY '08 was driven primarily by increases in public health cost reimbursements, facilities management revenue and lifeline services. In the previous year, other operating revenue increased by \$99,800 due to increases in wellness/nutrition counseling services, wellness grant dollars and contributions.

Nursing Service Expenses: Market-driven salary increases for nursing staff, partially offset by lower agency staff expense and lower inpatient volumes caused a minimal increase of \$24,000, or 0.2% in FY '08, following an increase of \$1,051,000, or 9% in FY '07 nursing service expenses.

Other Professional Service Expenses: Expenses in this category increased \$376,000 during FY '08. The increase in FY'08 was driven by volume increases in radiology and increased staffing levels in laboratory and 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 '08 was \$130,000 or 4% in FY '08 and \$247,000 or 8% in FY '07. These recent increases were primarily the result of increased supply and salary expenses in these areas.

Fiscal and Administrative Expenses: During FY '08, the fiscal and administrative expenses increased \$755,000, or 12% after a \$516,000, or 9%, increase in FY'07. Purchased professional services and employee expenses related to employee health insurance and short-term disability coverage were 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 \$1,082,000 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 \$378,000 in FY '08 and \$866,000 in FY '07. Included in this amount are investment income and the change in the fair market value of investments, offset by interest expense and transfers to the Skiff Medical Center Foundation. The Medical Center has investments in marketable equity securities. These investments include the receipt of the Lufkin estate that is explained in Note 5. The marketable equity securities decreased in value \$406,000 during FY '08 after increasing by \$430,000 in FY '07. 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 2008, the Medical Center had invested \$20.7 million in capital assets as shown in Table 5. The Medical Center added \$2.3 million in capital assets during FY'08, but this increase was offset by depreciation on assets purchased in prior years, resulting in a net decrease of \$150,000 in net capital assets. In FY'07, \$1.6 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, 2008, 2007 and 2006.

**Table 5**

**Capital Assets  
(in Thousands)**

|  | 2008     | 2007     | 2006     | Change from<br>'07 to '08 | Change from<br>'06 to '07 |
|--|----------|----------|----------|---------------------------|---------------------------|
| Land   | \$2,144  | \$2,126  | \$2,073  | \$18                      | \$53                      |
| Land improvements  | 2,241    | 2,235    | 2,216    | 6                         | 19                        |
| Buildings  | 20,592   | 19,799   | 19,654   | 793                       | 145                       |
| Fixed equipment  | 6,723    | 6,595    | 6,469    | 128                       | 126                       |
| Major movable equipment  | 12,966   | 11,371   | 10,241   | 1,594                     | 1,130                     |
| Construction in progress   | 456      | 610      | 0        | (153)                     | 610                       |
| Assets held under capital lease obligations                          | 3,013    | 3,050    | 3,572    | (37)                      | (522)                     |
| Subtotal   | 48,135   | 45,786   | 44,225   | 2,349                     | 1,561                     |
| Less accumulated depreciation  | (25,246) | (23,093) | (20,867) | (2,153)                   | (2,226)                   |
| Less accumulated amortization on assets held<br>under capital leases | (2,213)  | (1,867)  | (1,784)  | (346)                     | (83)                      |
| Property, plant and equipment, net                                   | \$20,676 | \$20,826 | \$21,574 | (\$150)                   | (\$748)                   |

## **DEBT ADMINISTRATION**

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### **Long-Term Debt**

During the year, the Medical Center completely extinguished its debt related to Hospital Revenue Bonds. 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 10% of the Medical Center's total liabilities as of June 30, 2008, down from 14% at the prior fiscal year-end. The decrease was due to the payoff of the Hospital Revenue Bonds and several lease obligations that were completed during FY'08.

### **Capital Leases**

At year-end, the Medical Center had \$624,000 in short- and long-term capital lease obligations. This has decreased \$395,000 from fiscal year-end 2007. 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 16.7% of the Medical Center's total liabilities as of fiscal year-end '08, compared to 24% at June 30, 2007.

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

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

**Skiff Medical Center  
BALANCE SHEETS**

| <b>ASSETS</b>   | <b>June 30</b> |              |
|---|----------------|--------------|
|   | <b>2008</b>    | <b>2007</b>  |
| <b>CURRENT ASSETS</b>   |                |              |
| Cash  | \$ 1,210,744   | \$ 905,652   |
| Assets whose use is limited, required for current liabilities                       | -              | 378,849      |
| Patient receivables, less allowances for contractual adjustments and uncollectibles | 5,671,859      | 5,546,252    |
| Inventories   | 452,472        | 489,616      |
| Prepaid expenses  | 247,705        | 238,769      |
| Other current assets  | 209,841        | 147,478      |
| Total current assets  | 7,792,621      | 7,706,616    |
| <b>ASSETS WHOSE USE IS LIMITED</b>  |                |              |
| Designated by board for plant replacement and expansion                             |                |              |
| Cash  | 295,983        | 93,123       |
| Certificates of deposit   | 2,600,000      | 3,700,000    |
| Marketable securities   | 3,690,885      | 2,635,592    |
| Accrued interest receivable   | 28,853         | 49,034       |
|   | 6,615,721      | 6,477,749    |
| Restricted under loan agreement   |                |              |
| Cash, revenue notes sinking fund  | -              | 93,849       |
| Certificate of deposit, debt service reserve fund                                   | -              | 285,000      |
|   | -              | 378,849      |
| Restricted by donors for specific purpose   |                |              |
| Certificate of deposit  | 26,900         | 24,400       |
| Total assets whose use is limited   | 6,642,621      | 6,880,998    |
| Less current portion  | -              | 378,849      |
| Noncurrent assets whose use is limited  | 6,642,621      | 6,502,149    |
| <b>BENEFICIAL INTEREST IN REMAINDER TRUST</b>                                       |                |              |
|   | -              | 1,515,000    |
| <b>PROPERTY AND EQUIPMENT</b>   |                |              |
| Less accumulated depreciation and amortization                                      | 48,134,745     | 45,785,584   |
| Total property and equipment  | 27,458,352     | 24,959,276   |
|   | 20,676,393     | 20,826,308   |
| Totals  | \$35,111,635   | \$36,550,073 |

See Notes to Financial Statements.



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

|   | <b>Year ended June 30</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2008</b>               | <b>2007</b>         |
| <b>NET PATIENT SERVICE REVENUE</b> , net of provision<br>for bad debts 2008 \$1,420,849; 2007 \$1,787,118 | \$34,002,486              | \$34,899,954        |
| <b>OTHER REVENUE</b>  | <u>1,542,739</u>          | <u>1,456,436</u>    |
| Total revenue   | <u>35,545,225</u>         | <u>36,356,390</u>   |
| <b>OPERATING EXPENSES</b>   |                           |                     |
| Nursing service   | 12,876,452                | 12,851,619          |
| Other professional service  | 10,684,030                | 10,308,506          |
| General service   | 3,547,788                 | 3,417,595           |
| Fiscal and administrative service and unassigned expenses   | 7,155,233                 | 6,400,306           |
| Provision for depreciation and amortization   | <u>2,581,766</u>          | <u>2,718,433</u>    |
| Total operating expenses  | <u>36,845,269</u>         | <u>35,696,459</u>   |
| Operating income (loss)   | <u>(1,300,044)</u>        | <u>659,931</u>      |
| <b>NONOPERATING GAINS (LOSSES)</b>  |                           |                     |
| Investment income   | 240,526                   | 298,326             |
| Interest expense  | (52,818)                  | (93,949)            |
| Net increase (decrease) in the fair value of investments  | (405,585)                 | 429,886             |
| Change in value of split-interest agreement   | 110,171                   | 320,000             |
| Unrestricted contributions  | 539,105                   | 570                 |
| Transfers to related foundation   | (54,000)                  | (95,000)            |
| Gain on disposal of assets  | <u>900</u>                | <u>6,324</u>        |
| Total nonoperating gains (losses)   | <u>378,299</u>            | <u>866,157</u>      |
| Excess (deficiency) of revenues over expenses before contributions  | (921,745)                 | 1,526,088           |
| <b>RESTRICTED CONTRIBUTIONS</b>   | <u>74,500</u>             | <u>57,300</u>       |
| Change in fund equity   | (847,245)                 | 1,583,388           |
| <b>TOTAL FUND EQUITY</b>  |                           |                     |
| Beginning   | <u>32,211,448</u>         | <u>30,628,060</u>   |
| Ending  | <u>\$31,364,203</u>       | <u>\$32,211,448</u> |

**Skiff Medical Center  
STATEMENTS OF CASH FLOWS**

|   | <b>Year ended June 30</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2008</b>               | <b>2007</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                           |                     |
| Cash received from patients and third-party payors                        | \$33,950,072              | \$34,496,594        |
| Cash paid to suppliers for goods and services                             | (15,429,883)              | (14,920,291)        |
| Cash paid to employees for services                                       | (18,593,158)              | (17,541,592)        |
| Home health services grants received                                      | 402,877                   | 346,896             |
| Contributions received for expenses of hospice services                   | 125,854                   | 133,516             |
| Other operating revenue received  | 951,645                   | 938,222             |
| Net cash provided by operating activities                                 | <u>1,407,407</u>          | <u>3,453,345</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                    |                           |                     |
| Unrestricted contributions received                                       | 539,105                   | 570                 |
| Transfers to related foundation   | (54,000)                  | (95,000)            |
| Endowments received   | 2,500                     | 2,300               |
| Net cash provided by (used in) noncapital financing activities            | <u>487,605</u>            | <u>(92,130)</u>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>           |                           |                     |
| Principal payments on long-term debt                                      | (879,896)                 | (1,077,039)         |
| Interest paid on long-term debt   | (49,561)                  | (84,168)            |
| Acquisition of property and equipment                                     | (2,431,851)               | (2,120,758)         |
| Proceeds from sale of property and equipment                              | 900                       | 156,130             |
| Contributions received, restricted for purchase of property and equipment | 72,000                    | 55,000              |
| Net cash (used in) capital and related financing activities               | <u>(3,288,408)</u>        | <u>(3,070,835)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                           |                     |
| Purchase of certificates of deposit                                       | (6,011,900)               | (7,294,400)         |
| Proceeds from maturities of certificates of deposit                       | 7,394,400                 | 6,992,100           |
| Purchase of marketable securities   | (1,918,190)               | (781,846)           |
| Proceeds from sale of marketable securities                               | 1,861,940                 | 779,716             |
| Distribution of cash from remainder trust                                 | 220,542                   | -                   |
| Interest and dividends received   | 260,707                   | 294,544             |
| Net cash provided by (used in) investing activities                       | <u>1,807,499</u>          | <u>(9,886)</u>      |
| <b>NET INCREASE IN CASH</b>   | 414,103                   | 280,494             |
| <b>CASH</b>   |                           |                     |
| Beginning   | <u>1,092,624</u>          | <u>812,130</u>      |
| Ending  | <u>\$ 1,506,727</u>       | <u>\$ 1,092,624</u> |
| <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>              |                           |                     |
| Marketable securities distributed from remainder trust at fair value      | <u>\$ 1,404,628</u>       | <u>\$ -</u>         |

See Notes to Financial Statements.

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

|   | <b>Year ended June 30</b> |                    |
|---|---------------------------|--------------------|
|   | <b>2008</b>               | <b>2007</b>        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                           |                    |
| Operating income (loss)   | \$ (1,300,044)            | \$ 659,931         |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities |                           |                    |
| Depreciation and amortization   | 2,581,766                 | 2,718,433          |
| Change in assets and liabilities  |                           |                    |
| (Increase) in patient receivables   | (125,607)                 | (346,177)          |
| Decrease in inventories   | 37,144                    | 6,342              |
| (Increase) in other current assets  | (62,363)                  | (37,802)           |
| (Increase) in prepaid expenses  | (8,936)                   | (15,919)           |
| Increase (decrease) in accounts payable, trade  | (1,662)                   | 35,216             |
| Increase in accrued payroll and payroll taxes   | 178,714                   | 126,639            |
| Increase in accrued employee benefits   | 35,202                    | 363,865            |
| Increase (decrease) in net estimated third-party payor settlements                            | <u>73,193</u>             | <u>(57,183)</u>    |
| Net cash provided by operating activities   | <u>\$1,407,407</u>        | <u>\$3,453,345</u> |
| <br><b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>            |                           |                    |
| Per balance sheet   |                           |                    |
| Current assets, cash  | \$1,210,744               | \$ 905,652         |
| Assets whose use is limited   |                           |                    |
| By board for plant replacement and expansion, cash  | 295,983                   | 93,123             |
| Under loan agreement for revenue notes, sinking fund, cash                                    | <u>—</u>                  | <u>93,849</u>      |
| Total per statement of cash flows   | <u>\$1,506,727</u>        | <u>\$1,092,624</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<br>Nonnegotiable certificates of deposit | Cost                                     |
| Marketable securities  | 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**

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**

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 Revenue, 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, INVESTMENTS AND SUBSEQUENT EVENTS**

The Medical Center's deposits in banks at June 30, 2008 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 marketable securities at June 30, 2008 are as follows:

|                           | <u>Fair value</u>  | <u>Maturity</u>                       |
|---------------------------|--------------------|---------------------------------------|
| Mutual funds              | \$2,959,818        | N/A                                   |
| Federal agency securities | 54,487             | 5/14/2010                             |
| Corporate debt securities | 102,265            | Various 8/1/2008<br>through 2/17/2009 |
| Domestic preferred stocks | 66,280             | N/A                                   |
| Domestic common stocks    | 453,319            | N/A                                   |
| Foreign common stocks     | <u>54,716</u>      | N/A                                   |
|                           | <u>\$3,690,885</u> |                                       |

**Credit Risk—Debt Securities**

Credit ratings for debt securities as of June 30, 2008 are as follows:

| <u>Moody's Rating</u> | <u>Fair value</u>     |                       |                         |
|-----------------------|-----------------------|-----------------------|-------------------------|
|                       | <u>Federal agency</u> | <u>Corporate debt</u> | <u>Preferred stocks</u> |
| Aaa                   | \$ 54,487             | \$ —                  | \$ 24,360               |
| Aa                    | —                     | 51,331                | 23,910                  |
| A                     | <u>—</u>              | <u>50,934</u>         | <u>18,010</u>           |
|                       | <u>\$ 54,487</u>      | <u>\$ 102,265</u>     | <u>\$ 66,280</u>        |

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH, INVESTMENTS AND SUBSEQUENT EVENTS (continued)**

**Foreign Currency Risk**

The Medical Center's exposure to foreign currency risk at June 30, 2008 is as follows:

|                       | <u>Fair value</u> |
|-----------------------|-------------------|
| Foreign common stocks |                   |
| Canadian dollar       | \$ 8,266          |
| Mexican peso          | 10,550            |
| Brazilian real        | 19,832            |
| Hong Kong dollar      | 16,068            |
|                       | \$ 54,716         |

*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.

*Interest rate risk.* The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

During the period from June 30, 2008 to October 9, 2008 the aggregate fair value of the marketable securities portfolio decreased by approximately 30%.

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets consisted of these amounts:

|  | <u>June 30</u> |             |
|--|----------------|-------------|
|  | <u>2008</u>    | <u>2007</u> |
| Receivable from patients                                       | \$2,672,653    | \$2,031,055 |
| Receivable from insurance carriers                             | 3,202,601      | 3,338,866   |
| Receivable from Medicare                                       | 3,314,712      | 2,776,578   |
| Receivable from Medicaid                                       | 744,528        | 783,068     |
| Total patient receivables                                      | 9,934,494      | 8,929,567   |
| Less allowances for contractual adjustments and uncollectibles | 4,262,635      | 3,383,315   |
| Net patient receivables  | \$5,671,859    | \$5,546,252 |

**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, 2009, 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, 2009, 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, 2006.

**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 was a party to the Harold A. Lufkin Charitable Remainder Unitrust, a split-interest agreement. The trust agreement specified that Mr. Lufkin's son would annually receive 7% of the fair value of the trust assets until his death, at which time the remainder of the trust would be distributed to the Medical Center. The remainder of the trust was distributed to the Medical Center in June 2008. Prior to the distribution in June 2008, the interest in the remainder trust had 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, 2008</u> |  | <u>June 30, 2007</u> |  |
|--|----------------------|--|----------------------|--|
|  | <u>Cost</u>          | <u>Accumulated<br/>depreciation<br/>and<br/>amortization</u> | <u>Cost</u>          | <u>Accumulated<br/>depreciation<br/>and<br/>amortization</u> |
| Land   | \$ 2,144,173         | \$ —   | \$ 2,126,033         | \$ —   |
| Land improvements  | 2,241,002            | 1,608,225  | 2,234,571            | 1,506,765  |
| Buildings  | 20,591,997           | 9,722,483  | 19,799,012           | 8,831,906  |
| Fixed equipment  | 6,723,191            | 4,525,202  | 6,594,595            | 4,226,991  |
| Major movable equipment including<br>equipment under capital lease<br>2008 \$3,012,585; 2007 \$3,050,165 | 15,978,112           | 11,602,442   | 14,421,195           | 10,393,614   |
| Construction in progress   | <u>456,270</u>       | <u>—</u>   | <u>610,178</u>       | <u>—</u>   |
| Totals   | <u>\$48,134,745</u>  | <u>\$27,458,352</u>  | <u>\$45,785,584</u>  | <u>\$24,959,276</u>  |

Depreciation expense for the years ended June 30, 2008 and 2007 amounted to \$2,198,165 and \$2,115,884, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2008 and 2007 amounted to \$383,601 and \$602,549, respectively. Accumulated amortization on these assets totaled \$2,211,989 and \$1,865,968 at June 30, 2008 and 2007, respectively.

A summary of changes in property and equipment for the year ended June 30, 2008 follows:

|  | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Deletions</u> | <u>Transfers</u>   | <u>Ending<br/>balance</u> |
|--|------------------------------|---------------------|------------------|--------------------|---------------------------|
| Land   | \$ 2,126,033                 | \$ —                | \$ —             | \$ 18,140          | \$ 2,144,173              |
| Land improvements  | 2,234,571                    | 6,431               | —                | —                  | 2,241,002                 |
| Buildings  | 19,799,012                   | 4,473               | —                | 788,512            | 20,591,997                |
| Fixed equipment  | 6,594,595                    | 33,452              | —                | 95,144             | 6,723,191                 |
| Major movable equipment including<br>equipment under capital lease | 14,421,195                   | 872,191             | (82,690)         | 767,416            | 15,978,112                |
| Construction in progress   | <u>610,178</u>               | <u>1,515,304</u>    | <u>—</u>         | <u>(1,669,212)</u> | <u>456,270</u>            |
| Totals   | 45,785,584                   | 2,431,851           | (82,690)         | —                  | 48,134,745                |
| Less accumulated depreciation<br>and amortization                  | <u>(24,959,276)</u>          | <u>(2,581,766)</u>  | <u>82,690</u>    | <u>—</u>           | <u>(27,458,352)</u>       |
| Net property and equipment   | <u>\$20,826,308</u>          | <u>\$ (149,915)</u> | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$20,676,393</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, 2007 follows:

|  | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Deletions</u>    | <u>Transfers</u> | <u>Ending<br/>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<br>equipment under capital lease | 13,812,266                   | 949,653             | (355,149)           | 14,425           | 14,421,195                |
| Construction in progress   | —                            | 990,831             | —                   | (380,653)        | 610,178                   |
| Totals   | <u>44,225,128</u>            | <u>2,120,758</u>    | <u>(560,302)</u>    | <u>—</u>         | <u>45,785,584</u>         |
| Less accumulated depreciation<br>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>       |

**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. 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 \$43,313 through January 2013. 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, 2008 and 2007 is summarized as follows:

|   | <u>2008</u>       | <u>2007</u>       |
|---|-------------------|-------------------|
| Hospital Revenue Refunding Notes, Series 2003 | \$ —              | \$ 485,000        |
| Obligations under capital leases              | <u>624,255</u>    | <u>1,019,153</u>  |
|   | 624,255           | 1,504,153         |
| Less deferred financing costs                 | —                 | 4,336             |
| Less current maturities                       | <u>242,678</u>    | <u>879,896</u>    |
| Long-term debt, net of current maturities     | <u>\$ 381,577</u> | <u>\$ 619,921</u> |

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 LONG-TERM DEBT (continued)**

**Obligations under capital leases**

The Medical Center leases various medical equipment and information system hardware and software under capital lease agreements. The property cost and the related liability under each capital lease was recorded at the present value of the future minimum payments due under the lease, as determined with discount rates ranging from 4.1 to 5.2 percent.

The leases require various monthly payments of \$2,964 to \$6,836, with lease terms expiring between December 2008 and October 2014. At June 30, 2008, the aggregate monthly payment for all capital leases is \$26,373.

Principal and interest maturities of the debt outstanding at June 30, 2008 are summarized as follows:

| <u>Year ending June 30</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|----------------------------|-------------------|------------------|-------------------|
| 2009                       | \$ 242,678        | \$ 25,087        | \$ 267,765        |
| 2010                       | 88,051            | 16,397           | 104,448           |
| 2011                       | 62,217            | 13,127           | 75,344            |
| 2012                       | 65,400            | 9,944            | 75,344            |
| 2013                       | 68,746            | 6,598            | 75,344            |
| 2014-2015                  | <u>97,163</u>     | <u>3,296</u>     | <u>100,459</u>    |
| Totals                     | <u>\$ 624,255</u> | <u>\$ 74,449</u> | <u>\$ 698,704</u> |

A summary of changes in long-term debt for the year ended June 30, 2008 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           | \$ 485,000               | \$ —             | \$ 485,000                | \$ —                  | \$ —                               |
| Obligations under capital leases | <u>1,019,153</u>         | <u>—</u>         | <u>394,898</u>            | <u>624,255</u>        | <u>242,678</u>                     |
| Totals                           | <u>\$1,504,153</u>       | <u>\$ —</u>      | <u>\$ 879,898</u>         | <u>\$ 624,255</u>     | <u>\$ 242,678</u>                  |

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>                  |

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**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, 2008 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 3.90% of their annual salary and the Medical Center is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$1,128,806, \$988,461 and \$904,265, respectively, equal to the required contributions for each year.

**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, 2008 and 2007 was \$2,720,485 and \$2,146,648, 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, 2008 and 2007.

|   | <b>2008</b>        | <b>2007</b>       |
|---|--------------------|-------------------|
| Charges foregone, based on established rates                          | <u>\$1,046,876</u> | <u>\$ 829,426</u> |
| Equivalent percentage of charity care patients to all patients served | <u>1.6%</u>        | <u>1.3%</u>       |

**Skiff Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**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 \$50,000 and \$55,000 to the Medical Center during the years ended June 30, 2008 and 2007, respectively, for the Medical Center's hospice wing. Also, the Foundation made an unrestricted contribution to the Medical Center of \$538,000 during the year ended June 30, 2008. Additionally, \$54,000 and \$95,000 was transferred from the Medical Center to the Foundation during the years ended June 30, 2008 and 2007, respectively, and has been included in nonoperating gains (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:

|                                 | <b>Operating<br/>expenses<br/>(GAAP basis)</b> | <b>Budget<br/>basis<br/>adjustment</b> | <b>Budget<br/>basis</b> | <b>Budget</b>       |
|---------------------------------|--|--|-------------------------|---------------------|
| Year ended June 30, 2008 totals | <u>\$36,845,269</u>                            | <u>\$ 52,818</u>                       | <u>\$36,898,087</u>     | <u>\$40,000,000</u> |

**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 RISKS AND UNCERTAINTIES**

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the balance sheet.

**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, 2008 and 2007 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  
October 9, 2008

**Skiff Medical Center  
ANALYSIS OF PATIENT RECEIVABLES**

| <u>Age of accounts<br/>(by date of discharge)</u>                   | <u>Amounts</u>     |                    | <u>Percent to total</u> |               |
|---|--------------------|--------------------|-------------------------|---------------|
|   | <u>June 30</u>     |                    | <u>June 30</u>          |               |
|   | <u>2008</u>        | <u>2007</u>        | <u>2008</u>             | <u>2007</u>   |
| 0 - 30 days (includes patients in<br>Medical Center at end of year) | \$5,411,166        | \$5,144,152        | 54.5%                   | 57.7%         |
| 31 - 60 days  | 1,383,583          | 1,173,856          | 13.9                    | 13.1          |
| 61 - 90 days  | 753,099            | 722,882            | 7.6                     | 8.1           |
| 91 - 120 days   | 407,468            | 398,260            | 4.1                     | 4.5           |
| 121 - 365 days  | 1,693,351          | 1,173,484          | 17.0                    | 13.1          |
| Over one year   | <u>285,827</u>     | <u>316,933</u>     | <u>2.9</u>              | <u>3.5</u>    |
| Totals  | <u>9,934,494</u>   | <u>8,929,567</u>   | <u>100.0%</u>           | <u>100.0%</u> |
| Allowances  |                    |                    |                         |               |
| Contractual   |                    |                    |                         |               |
| Medicare  | 1,943,665          | 1,401,265          |                         |               |
| Medicaid  | 363,667            | 373,867            |                         |               |
| Blue Cross  | 539,000            | 507,000            |                         |               |
| Other   | 240,163            | 216,362            |                         |               |
| Uncollectibles  | <u>1,176,140</u>   | <u>884,821</u>     |                         |               |
| Total allowances  | <u>4,262,635</u>   | <u>3,383,315</u>   |                         |               |
| Totals  | <u>\$5,671,859</u> | <u>\$5,546,252</u> |                         |               |

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

|   | <u>Amount</u>             |                    | <u>Percent of net patient<br/>service revenue</u> |             |
|---|---------------------------|--------------------|---|-------------|
|   | <u>Year ended June 30</u> |                    | <u>Year ended June 30</u>                         |             |
|   | <u>2008</u>               | <u>2007</u>        | <u>2008</u>                                       | <u>2007</u> |
| <b>BALANCE</b> , beginning                    | \$ 884,821                | \$ 661,531         |   |             |
| <b>ADD</b>                                    |                           |                    |   |             |
| Provision for bad debts                       | 1,420,849                 | 1,787,118          | 4.2%  | 5.1%        |
| Recoveries of accounts previously written off | 525,150                   | 471,909            | 1.5   | 1.4         |
| <b>LESS</b>                                   |                           |                    |   |             |
| Accounts written off                          | <u>(1,654,680)</u>        | <u>(2,035,737)</u> | 4.9   | 5.8         |
| <b>BALANCE</b> , ending                       | <u>\$1,176,140</u>        | <u>\$ 884,821</u>  |   |             |
| <b>COLLECTION FEES</b>                        | <u>\$ 63,008</u>          | <u>\$ 44,436</u>   | .2  | .1          |

**Skiff Medical Center  
PATIENT SERVICE REVENUE**

|   | <u>Total</u>              |                     |
|---|---------------------------|---------------------|
|   | <u>Year ended June 30</u> |                     |
|   | <u>2008</u>               | <u>2007</u>         |
| <b>DAILY PATIENT SERVICES</b>                             |                           |                     |
| Medical and surgical                                      | \$ 5,630,956              | \$ 5,961,000        |
| Obstetric   | 623,836                   | 585,140             |
| Coronary care   | 910,365                   | 774,959             |
| Swing bed   |                           |                     |
| Skilled care  | 153,180                   | 174,420             |
| Nursery   | 322,620                   | 261,975             |
|   | <u>7,640,957</u>          | <u>7,757,494</u>    |
| <b>OTHER NURSING SERVICES</b>                             |                           |                     |
| Operating rooms   | 9,365,631                 | 10,468,003          |
| Recovery rooms  | 1,118,449                 | 1,244,809           |
| Delivery and labor rooms                                  | 575,144                   | 479,932             |
| Emergency services  | 6,808,231                 | 6,295,013           |
| Home health services                                      |                           |                     |
| Skilled nursing   | 941,550                   | 874,628             |
| Aides   | 566,168                   | 558,006             |
| Other   | 100,547                   | 97,402              |
| Hospice services  | 2,011,467                 | 1,266,890           |
|   | <u>21,487,187</u>         | <u>21,284,683</u>   |
| <b>OTHER PROFESSIONAL SERVICES</b>                        |                           |                     |
| Laboratory  | 4,959,994                 | 4,497,037           |
| Blood transfusions  | 335,576                   | 318,086             |
| Electrocardiology and cardiovascular                      | 1,360,918                 | 1,260,546           |
| Sleep disorder  | 339,324                   | 322,810             |
| Electroencephalography                                    | 26,973                    | 23,338              |
| Radiology and mammography                                 | 3,272,507                 | 2,851,281           |
| CT scans  | 4,433,307                 | 4,045,197           |
| Nuclear scans and ultrasound                              | 3,218,828                 | 3,063,619           |
| Magnetic resonance imaging                                | 2,330,936                 | 2,278,652           |
| Pharmacy  | 5,070,627                 | 4,982,959           |
| Intravenous therapy                                       | 194,696                   | 236,209             |
| Anesthesiology  | 3,959,845                 | 4,199,386           |
| Physical therapy  | 1,983,564                 | 2,441,839           |
| Occupational therapy                                      | 464,739                   | 382,383             |
| Respiratory therapy                                       | 1,952,960                 | 1,661,664           |
| Speech therapy  | 342,462                   | 286,965             |
| Audiology   | 291,247                   | 348,056             |
| Cardiac rehabilitation                                    | 255,839                   | 227,130             |
| Enterostomal  | 11,276                    | 45,690              |
| Occupational health                                       | 156,045                   | 165,113             |
| Alternative health services                               | 28,559                    | 33,083              |
| Clinics   | 1,437,573                 | 1,907,868           |
| Sports rehabilitation                                     | 646,136                   | 108,001             |
|   | <u>37,073,931</u>         | <u>35,686,912</u>   |
| Totals  | 66,202,075                | 64,729,089          |
| Charity care charges foregone, based on established rates | <u>(1,046,876)</u>        | <u>(829,426)</u>    |
| Total gross patient service revenue                       | 65,155,199                | 63,899,663          |
| Provisions for contractual adjustments and bad debts      | <u>(31,152,713)</u>       | <u>(28,999,709)</u> |
| Total net patient service revenue                         | <u>\$34,002,486</u>       | <u>\$34,899,954</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>2008</u>               | <u>2007</u>         | <u>2008</u>               | <u>2007</u>         | <u>2008</u>                     | <u>2007</u>        |
| \$ 5,548,730              | \$ 5,814,812        | \$ 82,226                 | \$ 146,188          | \$ -                            | \$ -               |
| 618,823                   | 580,304             | 5,013                     | 4,836               | -                               | -                  |
| 910,365                   | 774,857             | -                         | 102                 | -                               | -                  |
| 153,180                   | 174,420             | -                         | -                   | -                               | -                  |
| 322,620                   | 261,975             | -                         | -                   | -                               | -                  |
| <u>7,553,718</u>          | <u>7,606,368</u>    | <u>87,239</u>             | <u>151,126</u>      | <u>-</u>                        | <u>-</u>           |
| 3,965,871                 | 4,845,937           | 5,399,760                 | 5,622,066           | -                               | -                  |
| 248,708                   | 287,892             | 869,741                   | 956,917             | -                               | -                  |
| 295,772                   | 250,314             | 279,372                   | 229,618             | -                               | -                  |
| 1,408,116                 | 1,338,380           | 5,400,115                 | 4,956,633           | -                               | -                  |
| -                         | -                   | -                         | -                   | 941,550                         | 874,628            |
| -                         | -                   | -                         | -                   | 566,168                         | 558,006            |
| -                         | -                   | -                         | -                   | 100,547                         | 97,402             |
| <u>426,870</u>            | <u>330,965</u>      | <u>-</u>                  | <u>-</u>            | <u>1,584,597</u>                | <u>935,925</u>     |
| <u>6,345,337</u>          | <u>7,053,488</u>    | <u>11,948,988</u>         | <u>11,765,234</u>   | <u>3,192,862</u>                | <u>2,465,961</u>   |
| 1,798,798                 | 1,727,383           | 3,161,196                 | 2,769,654           | -                               | -                  |
| 170,959                   | 159,538             | 164,617                   | 158,548             | -                               | -                  |
| 375,175                   | 348,539             | 985,743                   | 912,007             | -                               | -                  |
| -                         | -                   | 339,324                   | 322,810             | -                               | -                  |
| 3,095                     | 4,913               | 23,878                    | 18,425              | -                               | -                  |
| 408,301                   | 403,204             | 2,864,206                 | 2,448,077           | -                               | -                  |
| 1,030,896                 | 975,603             | 3,402,411                 | 3,069,594           | -                               | -                  |
| 215,387                   | 208,453             | 3,003,441                 | 2,855,166           | -                               | -                  |
| 182,559                   | 167,201             | 2,148,377                 | 2,111,451           | -                               | -                  |
| 2,521,643                 | 2,692,139           | 2,548,984                 | 2,290,820           | -                               | -                  |
| 154,937                   | 180,468             | 39,759                    | 55,741              | -                               | -                  |
| 989,903                   | 1,209,832           | 2,969,942                 | 2,989,554           | -                               | -                  |
| 197,279                   | 231,709             | 1,540,393                 | 2,070,107           | 245,892                         | 140,023            |
| 76,813                    | 71,863              | 260,549                   | 269,767             | 127,377                         | 40,753             |
| 1,619,252                 | 1,364,981           | 333,708                   | 296,683             | -                               | -                  |
| 28,876                    | 33,199              | 292,422                   | 240,676             | 21,164                          | 13,090             |
| 16,585                    | 9,950               | 274,662                   | 338,106             | -                               | -                  |
| -                         | -                   | 255,839                   | 227,130             | -                               | -                  |
| -                         | 10,604              | 11,276                    | 35,086              | -                               | -                  |
| -                         | -                   | 156,045                   | 165,113             | -                               | -                  |
| -                         | -                   | 28,559                    | 33,083              | -                               | -                  |
| -                         | -                   | 1,437,573                 | 1,907,868           | -                               | -                  |
| -                         | -                   | 646,136                   | 108,001             | -                               | -                  |
| <u>9,790,458</u>          | <u>9,799,579</u>    | <u>26,889,040</u>         | <u>25,693,467</u>   | <u>394,433</u>                  | <u>193,866</u>     |
| <u>\$23,689,513</u>       | <u>\$24,459,435</u> | <u>\$38,925,267</u>       | <u>\$37,609,827</u> | <u>\$3,587,295</u>              | <u>\$2,659,827</u> |

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

|                            | <u>Year ended June 30</u> |                         |
|----------------------------|---------------------------|-------------------------|
|                            | <u>2008</u>               | <u>2007</u>             |
| Contractual adjustments    |                           |                         |
| Medicare                   | \$17,862,631              | \$16,302,250            |
| Medicaid                   | 4,003,544                 | 3,754,041               |
| Blue Cross                 | 4,667,399                 | 5,049,621               |
| Commercial Insurance       | 2,842,212                 | 2,001,771               |
| Provision for bad debts    | 1,420,849                 | 1,787,118               |
| Administrative adjustments | <u>356,078</u>            | <u>104,908</u>          |
| <br>Totals                 | <br><u>\$31,152,713</u>   | <br><u>\$28,999,709</u> |

**OTHER REVENUE**

|  | <u>Year ended June 30</u> |                        |
|--|---------------------------|------------------------|
|  | <u>2008</u>               | <u>2007</u>            |
| Revenues for expenses of home health services                |                           |                        |
| Jasper County  | \$ 152,111                | \$ 150,055             |
| Iowa State Department of Health and others                   | <u>250,766</u>            | <u>196,841</u>         |
| Subtotals  | 402,877                   | 346,896                |
| <br>Contributions for expenses of hospice services           | <br>125,854               | <br>133,516            |
| Cafeteria, diet instructions and dietary consulting services | 269,158                   | 292,774                |
| Facilities management  | 335,288                   | 275,889                |
| Lifeline rental  | 107,959                   | 97,455                 |
| Other  | 208,317                   | 240,373                |
| Pharmacy, employee, net                                      | 2,768                     | 470                    |
| Respite  | 4,255                     | 350                    |
| Clinic rental, net of expense                                | <u>86,263</u>             | <u>68,713</u>          |
| <br>Totals   | <br><u>\$1,542,739</u>    | <br><u>\$1,456,436</u> |

**Skiff Medical Center  
NURSING SERVICE EXPENSES**

|   | <u>Year ended June 30</u> |                     |
|---|---------------------------|---------------------|
|   | <u>2008</u>               | <u>2007</u>         |
| <b>ADMINISTRATIVE</b>                         |                           |                     |
| Salaries                                      | \$ 674,683                | \$ 667,187          |
| Payroll taxes                                 | 90,868                    | 87,357              |
| Purchased services                            | 5,000                     | -                   |
| Supplies and expenses                         | <u>31,979</u>             | <u>38,188</u>       |
|   | <u>802,530</u>            | <u>792,732</u>      |
| <b>MEDICAL AND SURGICAL</b>                   |                           |                     |
| Salaries                                      | 1,824,447                 | 1,719,251           |
| Payroll taxes                                 | 244,234                   | 224,647             |
| Purchased services                            | 296,720                   | 521,352             |
| Supplies and expenses                         | <u>128,527</u>            | <u>127,422</u>      |
|   | <u>2,493,928</u>          | <u>2,592,672</u>    |
| <b>OBSTETRIC, NURSERY, DELIVERY AND LABOR</b> |                           |                     |
| Salaries                                      | 616,868                   | 554,155             |
| Payroll taxes                                 | 82,497                    | 71,119              |
| Purchased services                            | 134,613                   | 145,253             |
| Supplies and expenses                         | <u>58,159</u>             | <u>61,825</u>       |
|   | <u>892,137</u>            | <u>832,352</u>      |
| <b>CORONARY CARE</b>                          |                           |                     |
| Salaries                                      | 270,846                   | 261,809             |
| Payroll taxes                                 | 36,728                    | 34,907              |
| Purchased services                            | 181,696                   | 163,763             |
| Supplies and expenses                         | <u>9,086</u>              | <u>9,630</u>        |
|   | <u>498,356</u>            | <u>470,109</u>      |
| <b>OPERATING AND RECOVERY ROOMS</b>           |                           |                     |
| Salaries                                      | 932,631                   | 929,526             |
| Payroll taxes                                 | 125,186                   | 120,005             |
| Purchased services                            | 81,596                    | 67,041              |
| Supplies and expenses                         | <u>1,568,479</u>          | <u>1,901,925</u>    |
|   | <u>2,707,892</u>          | <u>3,018,497</u>    |
| <b>CENTRAL SERVICES</b>                       |                           |                     |
| Salaries                                      | 48,735                    | 52,671              |
| Payroll taxes                                 | 6,714                     | 6,770               |
| Supplies and expenses                         | <u>124,279</u>            | <u>115,198</u>      |
|   | <u>179,728</u>            | <u>174,639</u>      |
| <b>EMERGENCY SERVICES</b>                     |                           |                     |
| Salaries                                      | 2,311,733                 | 2,056,472           |
| Payroll taxes                                 | 262,917                   | 219,734             |
| Professional fees                             | 94,691                    | 195,464             |
| Supplies and expenses                         | <u>145,122</u>            | <u>108,794</u>      |
|   | <u>2,814,463</u>          | <u>2,580,464</u>    |
| <b>HOME HEALTH SERVICES</b>                   |                           |                     |
| Salaries                                      | 1,002,258                 | 937,525             |
| Payroll taxes                                 | 132,855                   | 121,595             |
| Supplies and expenses                         | <u>199,419</u>            | <u>215,734</u>      |
|   | <u>1,334,532</u>          | <u>1,274,854</u>    |
| <b>HOSPICE SERVICES</b>                       |                           |                     |
| Salaries                                      | 818,368                   | 780,127             |
| Payroll taxes                                 | 108,378                   | 100,457             |
| Supplies and expenses                         | <u>226,140</u>            | <u>234,716</u>      |
|   | <u>1,152,886</u>          | <u>1,115,300</u>    |
| Totals  | <u>\$12,876,452</u>       | <u>\$12,851,619</u> |

**Skiff Medical Center  
OTHER PROFESSIONAL SERVICE EXPENSES**

|                               | <u>Year ended June 30</u> |                  |
|-------------------------------|---------------------------|------------------|
|                               | <u>2008</u>               | <u>2007</u>      |
| <b>LABORATORY</b>             |                           |                  |
| Salaries                      | \$ 742,090                | \$ 637,729       |
| Payroll taxes                 | 98,137                    | 81,155           |
| Professional fees             | 227,296                   | 222,509          |
| Blood                         | 255,819                   | 254,781          |
| Supplies and expenses         | <u>364,927</u>            | <u>357,596</u>   |
|                               | <u>1,688,269</u>          | <u>1,553,770</u> |
| <b>ELECTROCARDIOLOGY</b>      |                           |                  |
| Salaries                      | 19,871                    | 17,706           |
| Payroll taxes                 | 2,631                     | 2,449            |
| Professional fees             | 24,454                    | 25,703           |
| Supplies and expenses         | <u>3,108</u>              | <u>2,882</u>     |
|                               | <u>50,064</u>             | <u>48,740</u>    |
| <b>SLEEP DISORDER</b>         |                           |                  |
| Salaries                      | 3,283                     | 2,613            |
| Payroll taxes                 | 436                       | 349              |
| Professional fees             | <u>108,000</u>            | <u>96,750</u>    |
|                               | <u>111,719</u>            | <u>99,712</u>    |
| <b>ELECTROENCEPHALOGRAPHY</b> |                           |                  |
| Professional fees             | <u>4,200</u>              | <u>4,200</u>     |
| <b>RADIOLOGY</b>              |                           |                  |
| Salaries                      | 984,055                   | 943,700          |
| Payroll taxes                 | 131,237                   | 121,169          |
| Purchased services            | 13,486                    | -                |
| Supplies and expenses         | 502,431                   | 559,043          |
| Professional fees             | <u>77,422</u>             | <u>95,325</u>    |
|                               | <u>1,708,631</u>          | <u>1,719,237</u> |
| <b>PHARMACY</b>               |                           |                  |
| Salaries                      | 378,852                   | 358,885          |
| Payroll taxes                 | 50,390                    | 46,858           |
| Drugs                         | 862,315                   | 813,510          |
| Intravenous solutions         | 534                       | 4,487            |
| Supplies and expenses         | <u>33,035</u>             | <u>39,564</u>    |
|                               | <u>1,325,126</u>          | <u>1,263,304</u> |
| <b>ANESTHESIOLOGY</b>         |                           |                  |
| Salaries                      | 805,771                   | 706,754          |
| Payroll taxes                 | 83,617                    | 75,258           |
| Professional fees             | 75,159                    | 152,917          |
| Supplies and expenses         | <u>60,260</u>             | <u>68,823</u>    |
|                               | <u>1,024,807</u>          | <u>1,003,752</u> |
| <b>PHYSICAL THERAPY</b>       |                           |                  |
| Salaries                      | 697,183                   | 849,880          |
| Payroll taxes                 | 92,553                    | 108,821          |
| Supplies and expenses         | <u>103,063</u>            | <u>131,047</u>   |
|                               | <u>892,799</u>            | <u>1,089,748</u> |

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

|                                    | <u>Year ended June 30</u> |                  |
|------------------------------------|---------------------------|------------------|
|                                    | <u>2008</u>               | <u>2007</u>      |
| <b>OCCUPATIONAL THERAPY</b>        |                           |                  |
| Salaries                           | \$ 110,266                | \$ 89,280        |
| Payroll taxes                      | 14,406                    | 11,737           |
| Purchased services                 | 5,136                     | -                |
| Supplies and expenses              | 15,019                    | 14,226           |
|                                    | <u>144,827</u>            | <u>115,243</u>   |
| <b>RESPIRATORY THERAPY</b>         |                           |                  |
| Salaries                           | 283,686                   | 266,657          |
| Payroll taxes                      | 37,082                    | 34,180           |
| Supplies and expenses              | 47,390                    | 49,037           |
|                                    | <u>368,158</u>            | <u>349,874</u>   |
| <b>SPEECH THERAPY</b>              |                           |                  |
| Salaries                           | 69,925                    | 78,603           |
| Payroll taxes                      | 9,150                     | 10,107           |
| Purchased services                 | 38,670                    | -                |
| Supplies and expenses              | 7,489                     | 2,851            |
|                                    | <u>125,234</u>            | <u>91,561</u>    |
| <b>AUDIOLOGY</b>                   |                           |                  |
| Salaries                           | 70,544                    | 87,885           |
| Payroll taxes                      | 9,311                     | 11,027           |
| Supplies and expenses              | 112,071                   | 148,008          |
|                                    | <u>191,926</u>            | <u>246,920</u>   |
| <b>CARDIAC REHABILITATION</b>      |                           |                  |
| Salaries                           | 112,931                   | 107,289          |
| Payroll taxes                      | 14,853                    | 13,573           |
| Supplies and expenses              | 2,466                     | 5,403            |
|                                    | <u>130,250</u>            | <u>126,265</u>   |
| <b>ENTEROSTOMAL</b>                |                           |                  |
| Salaries                           | 53,314                    | 47,342           |
| Payroll taxes                      | 6,996                     | 6,713            |
| Professional fees                  | 1,519                     | 1,367            |
|                                    | <u>61,829</u>             | <u>55,422</u>    |
| <b>OCCUPATIONAL HEALTH</b>         |                           |                  |
| Salaries                           | 248,665                   | 192,803          |
| Payroll taxes                      | 33,180                    | 24,368           |
| Physicians' fees                   | 37,416                    | 56,933           |
| Supplies and expenses              | 38,953                    | 39,737           |
|                                    | <u>358,214</u>            | <u>313,841</u>   |
| <b>ALTERNATIVE HEALTH SERVICES</b> |                           |                  |
| Salaries                           | 43,267                    | 49,634           |
| Payroll taxes                      | 6,106                     | 5,644            |
| Supplies and expenses              | 1,773                     | 2,334            |
|                                    | <u>51,146</u>             | <u>57,612</u>    |
| <b>CLINICS</b>                     |                           |                  |
| Salaries                           | 901,349                   | 895,759          |
| Payroll taxes                      | 114,848                   | 101,435          |
| Purchased services                 | 17,848                    | -                |
| Supplies and expenses, net         | 301,838                   | 306,714          |
|                                    | <u>1,335,883</u>          | <u>1,303,908</u> |

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

|                                      | <b>Year ended June 30</b> |                     |
|--------------------------------------|---------------------------|---------------------|
|                                      | <b>2008</b>               | <b>2007</b>         |
| <b>SPORTS REHABILITATION</b>         |                           |                     |
| Salaries                             | \$ 238,328                | \$ 37,855           |
| Payroll taxes                        | 31,598                    | 4,811               |
| Supplies and expenses                | <u>23,456</u>             | <u>15,169</u>       |
|                                      | <u>293,382</u>            | <u>57,835</u>       |
| <b>SOCIAL SERVICES</b>               |                           |                     |
| Salaries                             | 169,733                   | 162,657             |
| Payroll taxes                        | 23,053                    | 21,150              |
| Supplies and expenses                | <u>1,135</u>              | <u>7,385</u>        |
|                                      | <u>193,921</u>            | <u>191,192</u>      |
| <b>HEALTH INFORMATION MANAGEMENT</b> |                           |                     |
| Salaries                             | 455,230                   | 438,217             |
| Payroll taxes                        | 61,053                    | 56,596              |
| Supplies and expenses                | <u>107,362</u>            | <u>121,557</u>      |
|                                      | <u>623,645</u>            | <u>616,370</u>      |
| Totals                               | <u>\$10,684,030</u>       | <u>\$10,308,506</u> |

**Skiff Medical Center  
GENERAL SERVICE EXPENSES**

|                           | <u>Year ended June 30</u> |                        |
|---------------------------|---------------------------|------------------------|
|                           | <u>2008</u>               | <u>2007</u>            |
| <b>NUTRITION/WELLNESS</b> |                           |                        |
| Salaries                  | \$ 730,427                | \$ 722,762             |
| Payroll taxes             | 98,101                    | 91,641                 |
| Food                      | 346,935                   | 333,762                |
| Supplies and expenses     | <u>30,936</u>             | <u>51,434</u>          |
|                           | <u>1,206,399</u>          | <u>1,199,599</u>       |
| <b>OPERATION OF PLANT</b> |                           |                        |
| Salaries                  | 412,904                   | 391,135                |
| Payroll taxes             | 55,045                    | 51,340                 |
| Repairs and maintenance   | 242,536                   | 206,366                |
| Utilities                 | 837,422                   | 839,302                |
| Supplies and expenses     | <u>21,450</u>             | <u>23,141</u>          |
|                           | <u>1,569,357</u>          | <u>1,511,284</u>       |
| <b>HOUSEKEEPING</b>       |                           |                        |
| Salaries                  | 363,065                   | 347,510                |
| Payroll taxes             | 49,362                    | 46,263                 |
| Supplies and expenses     | <u>78,927</u>             | <u>73,284</u>          |
|                           | <u>491,354</u>            | <u>467,057</u>         |
| <b>LAUNDRY AND LINEN</b>  |                           |                        |
| Salaries                  | 167,369                   | 136,313                |
| Payroll taxes             | 22,143                    | 17,472                 |
| Supplies and expenses     | <u>29,908</u>             | <u>24,124</u>          |
|                           | <u>219,420</u>            | <u>177,909</u>         |
| <b>OUTREACH</b>           |                           |                        |
| Salaries                  | 47,195                    | 44,711                 |
| Payroll taxes             | 6,260                     | 6,061                  |
| Supplies and expenses     | <u>7,803</u>              | <u>10,974</u>          |
|                           | <u>61,258</u>             | <u>61,746</u>          |
| <br>Totals                | <br><u>\$3,547,788</u>    | <br><u>\$3,417,595</u> |

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

|  | <u>Year ended June 30</u> |                    |
|--|---------------------------|--------------------|
|  | <u>2008</u>               | <u>2007</u>        |
| <b>FISCAL AND ADMINISTRATIVE SERVICE</b> |                           |                    |
| Salaries                                 | \$2,162,000               | \$2,095,829        |
| Payroll taxes                            | 270,362                   | 254,106            |
| Communications                           | 102,646                   | 88,459             |
| Supplies and purchased services          | 747,791                   | 868,701            |
| Professional fees                        | 200,797                   | 115,644            |
| Training and education                   | 13,113                    | 22,183             |
| Collection fees                          | 63,008                    | 44,436             |
| Dues, subscriptions and licenses         | 46,506                    | 44,421             |
| Other expenses                           | <u>108,686</u>            | <u>122,930</u>     |
|  | <u>3,714,909</u>          | <u>3,656,709</u>   |
| <b>UNASSIGNED EXPENSES</b>               |                           |                    |
| Employee benefits                        |                           |                    |
| Workers' compensation insurance          | 190,974                   | 168,734            |
| Health insurance                         | 2,720,485                 | 2,146,648          |
| Unemployment compensation                | 27,544                    | 8,483              |
| Disability insurance                     | 174,533                   | 86,544             |
| Life insurance                           | 24,502                    | 23,184             |
| Other                                    | 75,727                    | 83,160             |
| Insurance                                |                           |                    |
| Liability and property insurance         | <u>226,559</u>            | <u>226,844</u>     |
|  | <u>3,440,324</u>          | <u>2,743,597</u>   |
| Totals                                   | <u>\$7,155,233</u>        | <u>\$6,400,306</u> |

**Skiff Medical Center  
STATISTICS**

|   | <b>Year ended June 30</b> |                    |
|---|---------------------------|--------------------|
|   | <b><u>2008</u></b>        | <b><u>2007</u></b> |
| <b>PATIENT DAYS</b>   |                           |                    |
| Medical and surgical  | 6,017                     | 6,816              |
| Obstetric   | 636                       | 642                |
| Coronary care   | 579                       | 533                |
| Swing bed, skilled care   | 414                       | 513                |
| Nursery   | 566                       | 499                |
| Hospice   | <u>1,297</u>              | <u>1,121</u>       |
| Totals  | <u>9,509</u>              | <u>10,124</u>      |
| <b>RESPITE DAYS</b>   | <u>23</u>                 | <u>2</u>           |
| <b>ADMISSIONS</b>   |                           |                    |
| Acute   | 2,132                     | 2,292              |
| Swing bed   | <u>77</u>                 | <u>110</u>         |
| Totals  | <u>2,209</u>              | <u>2,402</u>       |
| <b>DISCHARGES</b>   |                           |                    |
| Acute   | 2,131                     | 2,293              |
| Swing bed   | <u>76</u>                 | <u>108</u>         |
| Totals  | <u>2,207</u>              | <u>2,401</u>       |
| <b>AVERAGE LENGTH OF STAY</b>   |                           |                    |
| Acute   | 3.39                      | 3.48               |
| Swing bed   | 5.45                      | 4.75               |
| <b>BEDS, ACUTE</b>  | 68                        | 68                 |
| <b>OCCUPANCY PERCENT, ACUTE</b>   | 29.06%                    | 32.2%              |
| <b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>   | <u>\$92,903</u>           | <u>\$95,616</u>    |
| <b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR</b> | <u>61</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, 2008, and have issued our report thereon dated October 9, 2008. 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, 2008 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  
October 9, 2008

**Skiff Medical Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2008**

**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, 2008**

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

**08-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, 2008.

**08-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Medical Center funds were noted.

**08-II-C TRAVEL EXPENSES**

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

**08-II-D BUSINESS TRANSACTIONS**

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

**08-II-E BOARD MINUTES**

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

**08-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.