

**Skiff Medical Center
Newton, Iowa**

FINANCIAL REPORT

June 30, 2009

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**Skiff Medical Center
OFFICIALS**

(Before January 2009)

Term expires

BOARD OF TRUSTEES

Officers

Gary Kahn, Chair
John Lee, Vice Chair
Debby Pence, Secretary

January, 2010
January, 2010
January, 2012

Members

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Cheryl Ritter

VICE-PRESIDENT OF CLINICAL SERVICES

Steve Wilbur

(After January 2009)

Term expires

BOARD OF TRUSTEES

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Jeff King, Ph.D
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Skiff Medical Center
Newton, Iowa

We have audited the accompanying balance sheets of Skiff Medical Center, a component unit of the City of Newton, Iowa, as of June 30, 2009 and 2008, 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, 2009 and 2008, 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 November 19, 2009 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 and the schedule of funding progress for the retiree health plan on page 27 are not a required part of the basic financial statements but are 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 or the schedule of funding progress for the retiree health plan.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 19, 2009

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, 2009, 2008 and 2007. 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 \$3,921,000 to \$31,191,000 in Fiscal Year (FY) '09, following a decrease of \$1,438,000 in FY '08.
- Total assets whose use is limited decreased \$2,943,000 during FY '09, following a \$238,000 decrease in FY '08.
- Total property and equipment, net of depreciation, decreased by \$1,228,000 in FY '09, following a decrease of \$150,000 in FY '08.
- Fund equity decreased by \$3,365,000 in FY '09 and decreased by \$847,000 in FY '08.
- Net patient service revenue decreased by \$134,000 to \$33,868,000 during FY '09. The decrease for fiscal year '08 was \$897,000.
- Operating expenses increased by \$1,066,000 in FY '09 and by \$1,149,000 in FY '08.
- Total margin for FY 2009 was (9.5%), compared to (2.4%) for FY 2008

Inpatient utilization declined during the year due to a decrease in the availability of orthopedic and general surgeon coverage. Outpatient utilization also declined during the year by a total of 1.9%. Emergency room, surgery and radiology all had decreases in utilization over the previous year. Provision for bad debt increased between FY '08 and FY '09 from \$1,421,000 to \$1,829,000.

The overall expense increase during FY '09 was driven by increases in salary and benefit expense, which represents nearly 71% 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 1.4%.

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

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

NET ASSETS

A summary of the Medical Center's balance sheets at June 30, 2009, 2008 and 2007, are presented in Table 1 below.

Table 1
Condensed Balance Sheets
(In Thousands)

	June 30, 2009	June 30, 2008	June 30, 2007	FY '08 to FY '09 \$ Change	FY '07 to FY '08 \$ Change	FY '08 to FY '09 % Change	FY '07 to FY '08 % Change
Current and other assets	\$11,742	\$14,436	\$15,724	(\$2,694)	(\$1,288)	(18.7)	(8.2)
Capital assets	19,449	20,676	20,826	(1,227)	(150)	(5.9)	(.7)
Total Assets	\$31,191	\$35,112	\$36,550	(3,921)	(1,438)	(11.2)	(3.9)
Long-term debt outstanding	\$292	\$381	\$620	(\$89)	(\$239)	(23.3)	(38.5)
Other liabilities	2,900	3,366	3,719	(466)	(353)	(13.8)	(9.5)
Total liabilities	\$3,192	\$3,747	\$4,339	(\$555)	(\$592)	(14.8)	(13.6)
Invested in capital assets,							
net of related debt	\$19,068	\$20,052	\$19,326	(\$984)	\$726	(4.9)	3.8
Unrestricted	8,901	11,285	12,482	(2,384)	(1,197)	(21.1)	(9.6)
Restricted	30	27	403	3	(376)	11.1	(93.3)
Total net assets	\$27,999	\$31,364	\$32,211	(\$3,365)	(\$847)	(10.7)	(2.6)

As can be seen in Table 1, net assets decreased by \$3,365,000 to \$27.9 million in FY 2009. Net assets at the end of FY '08 and FY '07 were \$31.4 million and \$32.2 million, respectively. The FY '09 decrease was due to decreases in cash reserves and marketable securities and a decrease in the depreciated value of property and equipment.

REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended June 30, 2009, 2008 and 2007.

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

	Year ended June 30,		
	2009	2008	2007
Net patient service revenue	33,868	34,002	34,900
Other operating revenue	1,572	1,543	1,456
Total revenue	\$35,440	\$35,545	\$36,356
Operating expenses:			
Nursing service	12,559	12,876	12,852
Other professional service	11,881	10,684	10,309
General service	3,368	3,548	3,418
Fiscal and administrative service and unassigned expenses	7,558	7,155	6,400
Provision for depreciation and amortization	2,545	2,582	2,718
Total operating expenses	37,911	36,845	35,696
Operating income(loss)	(2,471)	(1,300)	660
Non-operating gain (loss)	(919)	378	866
Excess of revenues over expenses before contributions	(3,390)	(922)	1,526
Contributions	25	75	57
Changes in fund equity	(3,365)	(847)	1,583
Total fund equity, beginning	31,364	32,211	30,628
Total fund equity, ending	\$27,999	\$31,364	\$32,211

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2009, June 30, 2008 and June 30, 2007.

Volume: Inpatient acute admissions (excluding normal newborns) for fiscal year 2009 were 2,091 compared to 2,132 in fiscal year 2008 and 2,292 in FY 2007. The acute average length of stay decreased to 3.16 as compared to 3.39 for the previous fiscal year. Total patient days decreased to 8,618 in FY 09 from 9,509 in FY 08 and 10,124 in FY 07.

Net Patient Service Revenue: Due to decreased orthopedic and general surgery coverage, net patient service revenues decreased by \$134,000, or (.4%) in comparison to fiscal year 2008. Outpatient revenue represented 62% of our gross patient service revenue and experienced 10.9% growth for FY '09 and 3.5% growth for FY '08. Inpatient revenue, representing 32% of our gross patient service revenue, experienced a decline of (6.4%) for FY '09 following a decline of (3.1%) for FY '08. The remaining 6% of revenue is generated through Home Health and Hospice.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2009, 2008 and 2007.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2009	2008	2007
Medicare	44.0%	45.0%	43.9%
Wellmark / Blue Cross	19.8%	20.7%	22.8%
Commercial	21.0%	20.3%	19.9%
Medicaid	11.1%	9.6%	9.6%
Self Pay	4.1%	4.4%	3.8%
Total	100.0%	100.0%	100.0%

Other Operating Revenue: The increase of \$29,000 in FY '09 was driven primarily by increases in cafeteria and facilities management revenues. In the previous year, other operating revenue increased by \$86,300 due to increases in public health cost reimbursements, facilities management revenue and lifeline services.

Nursing Service Expenses: Lower patient volumes caused a decrease of \$317,000 or 2.5% in FY 09 following a minimal increase of \$24,000 or .2% in FY '08 nursing service expenses.

Other Professional Service Expenses: Expenses in this category showed an increase of \$1,197,000 or 11.2 during FY '09. The increase was primarily attributable to the increase in employed physicians during FY 09 as compared to FY 08.

General Service Expenses: This category includes those expenses necessary to support the medical center through plant operations, nutrition services, housekeeping and laundry. The decrease in these expenses for FY '09 was \$180,000 or 5% in FY '09 as compared to an increase of \$130,000 or 4% in FY '08. These recent decreases were primarily the result of decreased supply and salary expenses in these areas.

Fiscal and Administrative Expenses: During FY '09, the fiscal and administrative expenses increased \$403,000, or 6% after a \$755,000, or 12%, increase in FY'08. Purchased professional services and employee expenses related to employee health insurance 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 has 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 loss of \$919,000 in FY '09 and a gain of \$378,000 in FY '08. 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 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 2009, the Medical Center had invested \$19.4 million in capital assets as shown in Note 6. The Medical Center added \$1.3 million in capital assets during FY'09, but this increase was offset by depreciation on assets purchased in prior years, resulting in a net decrease of \$1.2 million in net capital assets. In FY'08, \$2.3 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, 2009, 2008 and 2007.

Table 5

**Capital Assets
(In Thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>Change from '08 to '09</u>	<u>Change from '07 to '08</u>
Land	\$2,144	\$2,144	\$2,126	\$0	\$18
Land improvements	2,241	2,241	2,235	0	6
Buildings	20,884	20,592	19,799	292	793
Fixed equipment	6,791	6,723	6,595	68	128
Major movable equipment	14,031	12,966	11,371	1,065	1,594
Construction in progress	348	456	610	(108)	(153)
Assets held under capital lease obligations	3,012	3,012	3,050	0	(38)
Subtotal	49,451	48,135	45,786	1,316	2,349
Less accumulated depreciation	(27,576)	(25,246)	(23,093)	(2,330)	(2,153)
Less accumulated amortization on assets held under capital leases	(2,427)	(2,212)	(1,866)	(215)	(346)
Property, plant and equipment, net	<u>\$19,448</u>	<u>\$20,676</u>	<u>\$20,826</u>	<u>(\$1,229)</u>	<u>(\$150)</u>

DEBT ADMINISTRATION

Long-Term Debt

During the previous fiscal 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 9% of the Medical Center's total liabilities as of June 30, 2009, down from 10% at the prior fiscal year-end. The decrease was due to the continued pay down of several lease obligations in FY 09.

Capital Leases

At year-end, the Medical Center had \$380,000 in short- and long-term capital lease obligations. This has decreased \$244,000 from fiscal year-end 2008. 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 11.9% of the Medical Center's total liabilities as of fiscal year-end '09, compared to 16.7% at June 30, 2008.

CONTACTING THE MEDICAL CENTER'S FINANCE DEPARTMENT

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact Mike Anderson, Interim Chief Financial Officer at 641-791-4886 or via mail at 204 N. 4th Ave. East, Newton, Iowa 50208.

**Skiff Medical Center
BALANCE SHEETS**

ASSETS	June 30	
	2009	2008
CURRENT ASSETS		
Cash	\$ 912,694	\$ 1,210,744
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,915,009	5,671,859
Estimated third-party payor settlements	223,528	-
Inventories	504,324	452,472
Prepaid expenses	295,986	247,705
Other current assets	191,253	209,841
Total current assets	8,042,794	7,792,621
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	187,687	295,983
Certificates of deposit	600,000	2,600,000
Marketable securities	2,881,682	3,690,885
Accrued interest receivable	577	28,853
	3,669,946	6,615,721
Restricted by donors for specific purpose		
Certificate of deposit	29,500	26,900
Total assets whose use is limited	3,699,446	6,642,621
PROPERTY AND EQUIPMENT		
Less accumulated depreciation and amortization	49,451,513	48,134,745
Total property and equipment	30,003,184	27,458,352
	19,448,329	20,676,393
Totals	\$31,190,569	\$35,111,635

See Notes to Financial Statements.

	June 30	
	2009	2008
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 88,051	\$ 242,678
Accounts payable, trade	945,598	459,953
Accrued payroll and payroll taxes	408,937	1,085,021
Accrued employee benefits	1,457,095	1,492,048
Estimated third-party payor settlements	-	86,155
	<u>2,899,681</u>	<u>3,365,855</u>
LONG-TERM DEBT		
Obligations under capital leases	<u>380,103</u>	<u>624,255</u>
Less current maturities	<u>88,051</u>	<u>242,678</u>
Total long-term debt	<u>292,052</u>	<u>381,577</u>
COMMITMENT AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	19,068,226	20,052,138
Restricted		
Nonexpendable permanent endowment	29,500	26,900
Unrestricted	<u>8,901,110</u>	<u>11,285,165</u>
Total fund equity	<u>27,998,836</u>	<u>31,364,203</u>
Totals	<u>\$31,190,569</u>	<u>\$35,111,635</u>

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

	Year ended June 30	
	2009	2008
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2009 \$1,829,003; 2008 \$1,420,849	\$33,868,364	\$34,002,486
OTHER REVENUE	<u>1,571,776</u>	<u>1,542,739</u>
Total revenue	<u>35,440,140</u>	<u>35,545,225</u>
OPERATING EXPENSES		
Nursing service	12,559,696	12,876,452
Other professional service	11,880,965	10,684,030
General service	3,367,870	3,547,788
Fiscal and administrative service and unassigned expenses	7,557,981	7,155,233
Provision for depreciation and amortization	<u>2,544,832</u>	<u>2,581,766</u>
Total operating expenses	<u>37,911,344</u>	<u>36,845,269</u>
Operating (loss)	<u>(2,471,204)</u>	<u>(1,300,044)</u>
NONOPERATING GAINS (LOSSES)		
Investment income	119,873	240,526
Interest expense	(24,596)	(52,818)
Net (decrease) in the fair value of investments	(962,020)	(405,585)
Change in value of split-interest agreement	-	110,171
Unrestricted contributions	10,710	539,105
Transfers to related foundation	(63,130)	(54,000)
Gain on disposal of assets	<u>-</u>	<u>900</u>
Total nonoperating gains (losses)	<u>(919,163)</u>	<u>378,299</u>
(Deficiency) of revenues over expenses before contributions	<u>(3,390,367)</u>	<u>(921,745)</u>
RESTRICTED CONTRIBUTIONS		
Change in fund equity	<u>25,000</u>	<u>74,500</u>
	<u>(3,365,367)</u>	<u>(847,245)</u>
TOTAL FUND EQUITY		
Beginning	<u>31,364,203</u>	<u>32,211,448</u>
Ending	<u>\$27,998,836</u>	<u>\$31,364,203</u>

**Skiff Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$33,315,154	\$33,950,072
Cash paid to suppliers for goods and services	(14,943,075)	(15,429,883)
Cash paid to employees for services	(20,748,583)	(18,593,158)
Home health services grants received	400,538	402,877
Contributions received for expenses of hospice services	113,589	125,854
Other operating revenue received	<u>1,076,237</u>	<u>951,645</u>
Net cash provided by (used in) operating activities	<u>(786,140)</u>	<u>1,407,407</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	10,710	539,105
Transfers to related foundation	(63,130)	(54,000)
Endowments received	<u>2,600</u>	<u>2,500</u>
Net cash provided by (used in) noncapital financing activities	<u>(49,820)</u>	<u>487,605</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(244,152)	(879,896)
Interest paid on long-term debt	(24,596)	(49,561)
Acquisition of property and equipment	(1,316,770)	(2,431,851)
Proceeds from sale of property and equipment	-	900
Contributions received, restricted for purchase of property and equipment	<u>22,400</u>	<u>72,000</u>
Net cash (used in) capital and related financing activities	<u>(1,563,118)</u>	<u>(3,288,408)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,153,900)	(6,011,900)
Proceeds from maturities of certificates of deposit	5,151,300	7,394,400
Purchase of marketable securities	(2,399,719)	(1,918,190)
Proceeds from sale of marketable securities	2,246,902	1,861,940
Distribution of cash from remainder trust	-	220,542
Interest and dividends received	<u>148,149</u>	<u>260,707</u>
Net cash provided by investing activities	<u>1,992,732</u>	<u>1,807,499</u>
NET INCREASE (DECREASE) IN CASH	(406,346)	414,103
CASH		
Beginning	<u>1,506,727</u>	<u>1,092,624</u>
Ending	<u>\$ 1,100,381</u>	<u>\$ 1,506,727</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Marketable securities distributed from remainder trust at fair value	<u>\$ -</u>	<u>\$ 1,404,628</u>

See Notes to Financial Statements.

Skiff Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2009	2008
RECONCILIATION OF OPERATING (LOSS) TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (2,471,204)	\$ (1,300,044)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation and amortization	2,544,832	2,581,766
Change in assets and liabilities		
Patient receivables	(243,150)	(125,607)
Inventories	(51,852)	37,144
Other current assets	18,588	(62,363)
Prepaid expenses	(48,281)	(8,936)
Accounts payable, trade	485,647	(1,662)
Accrued payroll and payroll taxes	(676,084)	178,714
Accrued employee benefits	(34,953)	35,202
Estimated third-party payor settlements	<u>(309,683)</u>	<u>73,193</u>
Net cash provided by (used in) operating activities	<u>\$ (786,140)</u>	<u>\$1,407,407</u>
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS		
TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 912,694	\$1,210,744
Assets whose use is limited		
By board for plant replacement and expansion, cash	<u>187,687</u>	<u>295,983</u>
Total per statement of cash flows	<u>\$1,100,381</u>	<u>\$1,506,727</u>

See Notes to Financial Statements.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Investments and Investment Income

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

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Marketable securities	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 AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2009 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 Medical Center; and common stocks.

The Medical Center's marketable securities at June 30, 2009 are as follows:

	<u>Fair value</u>	<u>Maturity</u>
Mutual funds	\$2,881,682	N/A

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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of these amounts:

	June 30	
	2009	2008
Receivable from patients	\$ 3,419,864	\$2,672,653
Receivable from insurance carriers	3,110,150	3,202,601
Receivable from Medicare	3,069,211	3,314,712
Receivable from Medicaid	<u>922,446</u>	<u>744,528</u>
Total patient receivables	10,521,671	9,934,494
Less allowances for contractual adjustments and uncollectibles	<u>4,606,662</u>	<u>4,262,635</u>
Net patient receivables	<u>\$ 5,915,009</u>	<u>\$5,671,859</u>

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 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, 2008.

Medicaid

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

Blue Cross

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

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

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 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.

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>
Land	\$ 2,144,173	\$ —	\$ 2,144,173	\$ —
Land improvements	2,241,002	1,708,837	2,241,002	1,608,225
Buildings	20,883,653	10,604,498	20,591,997	9,722,483
Fixed equipment	6,791,275	4,830,980	6,723,191	4,525,202
Major movable equipment including equipment under capital lease 2009 and 2008 \$3,012,585	17,043,253	12,858,869	15,978,112	11,602,442
Construction in progress	<u>348,157</u>	<u>—</u>	<u>456,270</u>	<u>—</u>
Totals	<u>\$49,451,513</u>	<u>\$30,003,184</u>	<u>\$48,134,745</u>	<u>\$27,458,352</u>

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$2,330,123 and \$2,198,165, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2009 and 2008 amounted to \$214,709 and \$383,601, respectively. Accumulated amortization on these assets totaled \$2,426,699 and \$2,211,989 at June 30, 2009 and 2008, respectively.

A summary of changes in property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 2,144,173	\$ —	\$ —	\$ —	\$ 2,144,173
Land improvements	2,241,002	—	—	—	2,241,002
Buildings	20,591,997	48,348	—	243,308	20,883,653
Fixed equipment	6,723,191	21,547	—	46,537	6,791,275
Major movable equipment including equipment under capital lease	15,978,112	661,957	—	403,184	17,043,253
Construction in progress	<u>456,270</u>	<u>584,916</u>	<u>—</u>	<u>(693,029)</u>	<u>348,157</u>
Totals	48,134,745	1,316,768	—	—	49,451,513
Less accumulated depreciation and amortization	<u>(27,458,352)</u>	<u>(2,544,832)</u>	<u>—</u>	<u>—</u>	<u>30,003,184</u>
Net property and equipment	<u>\$20,676,393</u>	<u>\$(1,228,064)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$19,448,329</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, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending 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 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 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>

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 required 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 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Medical Center has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended June 30, 2009.

Plan Description

The Medical Center operates a single-employer retiree benefit plan which provides medical benefits/prescription drug benefits for retirees and their spouses. There are 271 active and 7 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a self-insured plan. Retirees under age 65 pay the same contribution for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 OTHER POST EMPLOYMENT BENEFITS (continued)

Funding Policy

The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Medical Center's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Medical Center's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligation:

Annual required contribution	\$ 38,285
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost	<u>38,285</u>
Contributions made	<u>(35,986)</u>
Increase in net OPEB obligation	2,299
Net OPEB obligation, beginning of year	<u>—</u>
 Net OPEB obligation, end of year	 <u>\$ 2,299</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2009, the Medical Center contributed \$35,986 to the medical plan. Plan members eligible for benefits contributed \$44,432, or 55% of the premium costs.

The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2009	\$ <u>38,285</u>	<u>94.0%</u>	\$ <u>2,299</u>

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$416,532, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$416,532. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$19,942,000 and the ratio of the UAAL to the covered payroll was 2.1%. As of June 30, 2009, there were no trust fund assets.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 OTHER POST EMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions includes a 3% discount rate based on the Medical Center's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1.0% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Rates for Male and Female. Termination rates were based upon national termination studies performed by the Society of Actuaries, adjusted to reflect the recent lower termination rates experienced by the Medical Center. Retirement rates were developed based upon recent Medical Center experience.

Projected claim costs of the medical plan are \$823 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 9 LONG-TERM DEBT

Long-term debt at June 30, 2009 and 2008 is summarized as follows:

	2009	2008
Obligations under capital leases	\$ 380,103	\$ 624,255
Less current maturities	88,051	242,678
Long-term debt, net of current maturities	\$ 292,052	\$ 381,577

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 July 2009 and October 2014. At June 30, 2009, the aggregate monthly payment for all capital leases is \$19,547.

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (continued)

Obligations under capital leases (continued)

Principal and interest maturities of the debt outstanding at June 30, 2009 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 88,051	\$ 16,392	\$ 104,443
2011	62,217	13,127	75,344
2012	65,213	10,131	75,344
2013	68,549	6,795	75,344
2014	72,056	3,288	75,344
2015	<u>24,017</u>	<u>1,098</u>	<u>25,115</u>
Totals	<u>\$ 380,103</u>	<u>\$ 50,831</u>	<u>\$ 430,934</u>

A summary of changes in long-term debt for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Obligations under capital leases	<u>\$ 624,255</u>	<u>\$ —</u>	<u>\$ 244,152</u>	<u>\$ 380,103</u>	<u>\$ 88,051</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>

NOTE 10 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, 2009 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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 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 4.10% of their annual salary and the Medical Center is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$1,206,065, \$1,128,806 and \$988,461, respectively, equal to the required contributions for each year.

NOTE 12 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, 2009 and 2008 was \$2,958,858 and \$2,720,485, 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 13 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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Charges foregone, based on established rates	\$ <u>708,188</u>	\$ <u>1,046,876</u>
Equivalent percentage of charity care patients to all patients served	<u>1.0%</u>	<u>1.6%</u>

NOTE 14 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 \$25,000 and \$50,000 to the Medical Center during the years ended June 30, 2009 and 2008, 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, \$63,130 and \$54,000 was transferred from the Medical Center to the Foundation during the years ended June 30, 2009 and 2008, respectively, and has been included in nonoperating gains (losses).

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 15 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:

	Operating expenses (GAAP basis)	Budget basis adjustment	Budget basis	Budget
Year ended June 30, 2009 totals	<u>\$37,911,344</u>	<u>\$ 24,596</u>	<u>\$37,935,940</u>	<u>\$37,300,000</u>

NOTE 16 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 17 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 18 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.

**Skiff Medical Center
SCHEDULE OF FUNDING PROGRESS
FOR THE RETIREE HEALTH PLAN**

Required Supplementary Information

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2009	\$ <u> —</u>	\$ <u>416,532</u>	\$ <u>416,532</u>	<u>0.0%</u>	<u>\$19,942,000</u>	<u>2.1%</u>

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

See Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON OTHER 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, 2009 and 2008 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
November 19, 2009

**Skiff Medical Center
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 5,942,704	\$5,411,166	56.5%	54.5%
31 - 60 days	1,203,427	1,383,583	11.5	13.9
61 - 90 days	755,712	753,099	7.2	7.6
91 - 120 days	435,822	407,468	4.1	4.1
121 - 365 days	1,528,425	1,693,351	14.5	17.0
Over one year	<u>655,581</u>	<u>285,827</u>	<u>6.2</u>	<u>2.9</u>
Totals	<u>10,521,671</u>	<u>9,934,494</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,703,665	1,943,665		
Medicaid	426,667	363,667		
Blue Cross	566,773	539,000		
Other	350,205	240,163		
Uncollectibles	<u>1,559,352</u>	<u>1,176,140</u>		
Total allowances	<u>4,606,662</u>	<u>4,262,635</u>		
Totals	<u>\$ 5,915,009</u>	<u>\$5,671,859</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amount</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
BALANCE , beginning	\$1,176,140	\$ 884,821		
ADD				
Provision for bad debts	1,829,003	1,420,849	5.5%	4.2%
Recoveries of accounts previously written off	351,997	525,150	1.1	1.5
LESS				
Accounts written off	<u>(1,797,788)</u>	<u>(1,654,680)</u>	6.0	4.9
BALANCE , ending	<u>\$1,559,352</u>	<u>\$1,176,140</u>		
COLLECTION FEES	<u>\$ 54,836</u>	<u>\$ 63,008</u>	.2	.2

**Skiff Medical Center
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
DAILY PATIENT SERVICES		
Medical and surgical	\$ 5,527,973	\$ 5,630,956
Obstetric	642,384	623,836
Coronary care	824,596	910,365
Swing bed		
Skilled care	206,060	153,180
Nursery	325,335	322,620
	<u>7,526,348</u>	<u>7,640,957</u>
OTHER NURSING SERVICES		
Operating rooms	9,193,882	9,365,631
Recovery rooms	1,223,373	1,118,449
Delivery and labor rooms	608,747	575,144
Emergency services	7,321,114	6,808,231
Home health services		
Skilled nursing	1,105,535	941,550
Aides	628,122	566,168
Other	92,517	100,547
Hospice services	1,901,798	2,011,467
	<u>22,075,088</u>	<u>21,487,187</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	5,378,207	4,959,994
Blood transfusions	300,387	335,576
Electrocardiology and cardiovascular	1,483,687	1,360,918
Sleep disorder	353,474	339,324
Electroencephalography	26,743	26,973
Radiology and mammography	3,486,356	3,272,507
CT scans	4,508,963	4,433,307
Nuclear scans and ultrasound	3,420,811	3,218,828
Magnetic resonance imaging	2,728,752	2,330,936
Pharmacy	5,292,300	5,070,627
Intravenous therapy	166,751	194,696
Anesthesiology	4,005,980	3,959,845
Physical therapy	2,011,059	1,983,564
Occupational therapy	153,109	464,739
Respiratory therapy	1,884,586	1,952,960
Speech therapy	289,060	342,462
Audiology	283,989	291,247
Cardiac rehabilitation	275,767	255,839
Enterostomal	13,354	11,276
Occupational health	273,249	156,045
Alternative health services	26,701	28,559
Clinics	2,612,158	1,437,573
Sports rehabilitation	679,645	646,136
	<u>39,655,088</u>	<u>37,073,931</u>
Totals	69,256,524	66,202,075
Charity care charges foregone, based on established rates	<u>(708,188)</u>	<u>(1,046,876)</u>
Total gross patient service revenue	68,548,336	65,155,199
Provisions for contractual adjustments and bad debts	<u>(34,679,972)</u>	<u>(31,152,713)</u>
Total net patient service revenue	<u>\$33,868,364</u>	<u>\$34,002,486</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
\$ 5,461,860	\$ 5,548,730	\$ 66,113	\$ 82,226	\$ -	\$ -
636,052	618,823	6,332	5,013	-	-
824,547	910,365	49	-	-	-
206,060	153,180	-	-	-	-
325,335	322,620	-	-	-	-
<u>7,453,854</u>	<u>7,553,718</u>	<u>72,494</u>	<u>87,239</u>	<u>-</u>	<u>-</u>
3,156,584	3,965,871	6,037,298	5,399,760	-	-
244,953	248,708	978,420	869,741	-	-
302,181	295,772	306,566	279,372	-	-
1,421,305	1,408,116	5,899,809	5,400,115	-	-
-	-	-	-	1,105,535	941,550
-	-	-	-	628,122	566,168
-	-	-	-	92,517	100,547
-	426,870	-	-	<u>1,901,798</u>	<u>1,584,597</u>
<u>5,125,023</u>	<u>6,345,337</u>	<u>13,222,093</u>	<u>11,948,988</u>	<u>3,727,972</u>	<u>3,192,862</u>
1,815,688	1,798,798	3,562,519	3,161,196	-	-
165,991	170,959	134,396	164,617	-	-
376,699	375,175	1,106,988	985,743	-	-
-	-	353,474	339,324	-	-
9,074	3,095	17,669	23,878	-	-
383,515	408,301	3,102,841	2,864,206	-	-
1,009,140	1,030,896	3,499,823	3,402,411	-	-
243,706	215,387	3,177,105	3,003,441	-	-
269,125	182,559	2,459,627	2,148,377	-	-
2,406,586	2,521,643	2,885,714	2,548,984	-	-
121,058	154,937	45,693	39,759	-	-
909,543	989,903	3,096,437	2,969,942	-	-
210,012	197,279	1,674,510	1,540,393	126,537	245,892
15,939	76,813	90,344	260,549	46,826	127,377
1,628,203	1,619,252	256,383	333,708	-	-
21,888	28,876	264,127	292,422	3,045	21,164
18,468	16,585	265,521	274,662	-	-
-	-	275,767	255,839	-	-
-	-	13,354	11,276	-	-
-	-	273,249	156,045	-	-
-	-	26,701	28,559	-	-
-	-	2,612,158	1,437,573	-	-
-	-	679,645	646,136	-	-
<u>9,604,635</u>	<u>9,790,458</u>	<u>29,874,045</u>	<u>26,889,040</u>	<u>176,408</u>	<u>394,433</u>
<u>\$22,183,512</u>	<u>\$23,689,513</u>	<u>\$43,168,632</u>	<u>\$38,925,267</u>	<u>\$3,904,380</u>	<u>\$3,587,295</u>

Skiff Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare	\$18,776,167	\$17,862,631
Medicaid	4,876,366	4,003,544
Blue Cross	5,145,209	4,667,399
Commercial Insurance	3,544,207	2,842,212
Provision for bad debts	1,829,003	1,420,849
Administrative adjustments	<u>509,020</u>	<u>356,078</u>
 Totals	 <u>\$34,679,972</u>	 <u>\$31,152,713</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Revenues for expenses of home health services		
Jasper County	\$ 156,370	\$ 152,111
Iowa State Department of Health and others	<u>244,168</u>	<u>250,766</u>
Subtotals	400,538	402,877
 Contributions for expenses of hospice services	 113,584	 125,854
Cafeteria, diet instructions and dietary consulting services	291,941	269,158
Facilities management	349,036	335,288
Lifeline rental	113,811	107,959
Other	212,739	208,317
Pharmacy, employee, net	693	2,768
Respite	1,850	4,255
Clinic rental, net of expense	<u>87,584</u>	<u>86,263</u>
 Totals	 <u>\$1,571,776</u>	 <u>\$1,542,739</u>

**Skiff Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
ADMINISTRATIVE		
Salaries	\$ 701,002	\$ 674,683
Payroll taxes	96,095	90,868
Purchased services	70,523	5,000
Supplies and expenses	<u>28,618</u>	<u>31,979</u>
	<u>896,238</u>	<u>802,530</u>
MEDICAL AND SURGICAL		
Salaries	1,697,017	1,824,447
Payroll taxes	231,859	244,234
Purchased services	186,620	296,720
Supplies and expenses	<u>131,533</u>	<u>128,527</u>
	<u>2,247,029</u>	<u>2,493,928</u>
OBSTETRIC, NURSERY, DELIVERY AND LABOR		
Salaries	614,946	616,868
Payroll taxes	83,088	82,497
Purchased services	199,475	134,613
Supplies and expenses	<u>61,385</u>	<u>58,159</u>
	<u>958,894</u>	<u>892,137</u>
CORONARY CARE		
Salaries	178,752	270,846
Payroll taxes	24,527	36,728
Purchased services	154,682	181,696
Supplies and expenses	<u>12,933</u>	<u>9,086</u>
	<u>370,894</u>	<u>498,356</u>
OPERATING AND RECOVERY ROOMS		
Salaries	972,784	932,631
Payroll taxes	131,969	125,186
Purchased services	-	81,596
Supplies and expenses	<u>1,327,346</u>	<u>1,568,479</u>
	<u>2,432,099</u>	<u>2,707,892</u>
CENTRAL SERVICES		
Salaries	75,111	48,735
Payroll taxes	10,151	6,714
Supplies and expenses	<u>93,851</u>	<u>124,279</u>
	<u>179,113</u>	<u>179,728</u>
EMERGENCY SERVICES		
Salaries	2,449,171	2,311,733
Payroll taxes	274,207	262,917
Professional fees	107,138	94,691
Supplies and expenses	<u>132,452</u>	<u>145,122</u>
	<u>2,962,968</u>	<u>2,814,463</u>
HOME HEALTH SERVICES		
Salaries	1,049,320	1,002,258
Payroll taxes	137,940	132,855
Supplies and expenses	<u>170,433</u>	<u>199,419</u>
	<u>1,357,693</u>	<u>1,334,532</u>
HOSPICE SERVICES		
Salaries	843,993	818,368
Payroll taxes	115,209	108,378
Supplies and expenses	<u>195,566</u>	<u>226,140</u>
	<u>1,154,768</u>	<u>1,152,886</u>
Totals	<u>\$12,559,696</u>	<u>\$12,876,452</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
LABORATORY		
Salaries	\$ 706,767	\$ 742,090
Payroll taxes	95,927	98,137
Professional fees	220,170	227,296
Blood	224,310	255,819
Supplies and expenses	348,922	364,927
	<u>1,596,096</u>	<u>1,688,269</u>
ELECTROCARDIOLOGY		
Salaries	19,691	19,871
Payroll taxes	2,675	2,631
Professional fees	25,549	24,454
Supplies and expenses	2,988	3,108
	<u>50,903</u>	<u>50,064</u>
SLEEP DISORDER		
Salaries	2,885	3,283
Payroll taxes	378	436
Professional fees	96,750	108,000
	<u>100,013</u>	<u>111,719</u>
ELECTROENCEPHALOGRAPHY		
Professional fees	<u>3,080</u>	<u>4,200</u>
RADIOLOGY		
Salaries	990,314	984,055
Payroll taxes	132,871	131,237
Purchased services	3,632	13,486
Supplies and expenses	550,785	502,431
Professional fees	71,055	77,422
	<u>1,748,657</u>	<u>1,708,631</u>
PHARMACY		
Salaries	390,610	378,852
Payroll taxes	51,350	50,390
Drugs	995,873	862,315
Intravenous solutions	4,391	534
Supplies and expenses	26,853	33,035
	<u>1,469,077</u>	<u>1,325,126</u>
ANESTHESIOLOGY		
Salaries	773,479	805,771
Payroll taxes	90,280	83,617
Professional fees	67,229	75,159
Supplies and expenses	53,502	60,260
	<u>984,490</u>	<u>1,024,807</u>
PHYSICAL THERAPY		
Salaries	729,412	697,183
Payroll taxes	97,311	92,553
Supplies and expenses	60,242	103,063
	<u>886,965</u>	<u>892,799</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
OCCUPATIONAL THERAPY		
Salaries	\$ 42,529	\$ 110,266
Payroll taxes	6,108	14,406
Purchased services	550	5,136
Supplies and expenses	<u>3,722</u>	<u>15,019</u>
	<u>52,909</u>	<u>144,827</u>
RESPIRATORY THERAPY		
Salaries	274,430	283,686
Payroll taxes	36,696	37,082
Supplies and expenses	<u>45,440</u>	<u>47,390</u>
	<u>356,566</u>	<u>368,158</u>
SPEECH THERAPY		
Salaries	64,505	69,925
Payroll taxes	8,869	9,150
Purchased services	44,640	38,670
Supplies and expenses	<u>1,563</u>	<u>7,489</u>
	<u>119,577</u>	<u>125,234</u>
AUDIOLOGY		
Salaries	62,063	70,544
Payroll taxes	8,427	9,311
Supplies and expenses	<u>102,766</u>	<u>112,071</u>
	<u>173,256</u>	<u>191,926</u>
CARDIAC REHABILITATION		
Salaries	106,462	112,931
Payroll taxes	15,549	14,853
Supplies and expenses	<u>3,620</u>	<u>2,466</u>
	<u>125,631</u>	<u>130,250</u>
ENTEROSTOMAL		
Salaries	69,398	53,314
Payroll taxes	9,321	6,996
Professional fees	<u>545</u>	<u>1,519</u>
	<u>79,264</u>	<u>61,829</u>
OCCUPATIONAL HEALTH		
Salaries	348,880	248,665
Payroll taxes	45,626	33,180
Physicians' fees	22,400	37,416
Supplies and expenses	<u>77,103</u>	<u>38,953</u>
	<u>494,009</u>	<u>358,214</u>
ALTERNATIVE HEALTH SERVICES		
Salaries	41,971	43,267
Payroll taxes	5,736	6,106
Supplies and expenses	<u>2,007</u>	<u>1,773</u>
	<u>49,714</u>	<u>51,146</u>
CLINICS		
Salaries	1,993,836	901,349
Payroll taxes	212,554	114,848
Purchased services	-	17,848
Supplies and expenses, net	<u>357,630</u>	<u>301,838</u>
	<u>2,564,020</u>	<u>1,335,883</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
SPORTS REHABILITATION		
Salaries	\$ 233,173	\$ 238,328
Payroll taxes	30,977	31,598
Supplies and expenses	<u>21,014</u>	<u>23,456</u>
	<u>285,164</u>	<u>293,382</u>
SOCIAL SERVICES		
Salaries	181,124	169,733
Payroll taxes	24,540	23,053
Supplies and expenses	<u>9,298</u>	<u>1,135</u>
	<u>214,962</u>	<u>193,921</u>
HEALTH INFORMATION MANAGEMENT		
Salaries	417,517	455,230
Payroll taxes	56,451	61,053
Supplies and expenses	<u>52,644</u>	<u>107,362</u>
	<u>526,612</u>	<u>623,645</u>
 Totals	 <u>\$11,880,965</u>	 <u>\$10,684,030</u>

**Skiff Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
NUTRITION/WELLNESS		
Salaries	\$ 708,100	\$ 730,427
Payroll taxes	94,904	98,101
Food	343,132	346,935
Supplies and expenses	<u>26,354</u>	<u>30,936</u>
	<u>1,172,490</u>	<u>1,206,399</u>
OPERATION OF PLANT		
Salaries	410,020	412,904
Payroll taxes	55,312	55,045
Repairs and maintenance	205,684	242,536
Utilities	846,823	837,422
Supplies and expenses	<u>11,467</u>	<u>21,450</u>
	<u>1,529,306</u>	<u>1,569,357</u>
HOUSEKEEPING		
Salaries	346,367	363,065
Payroll taxes	47,446	49,362
Supplies and expenses	<u>71,196</u>	<u>78,927</u>
	<u>465,009</u>	<u>491,354</u>
LAUNDRY AND LINEN		
Salaries	148,771	167,369
Payroll taxes	20,444	22,143
Supplies and expenses	<u>13,423</u>	<u>29,908</u>
	<u>182,638</u>	<u>219,420</u>
OUTREACH		
Salaries	13,869	47,195
Payroll taxes	1,893	6,260
Supplies and expenses	<u>2,665</u>	<u>7,803</u>
	<u>18,427</u>	<u>61,258</u>
 Totals	 <u>\$3,367,870</u>	 <u>\$3,547,788</u>

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

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Salaries	\$2,404,230	\$2,162,000
Payroll taxes	280,296	270,362
Communications	87,901	102,646
Supplies and purchased services	793,934	747,791
Professional fees	271,883	200,797
Training and education	120	13,113
Collection fees	54,836	63,008
Dues, subscriptions and licenses	44,453	46,506
Other expenses	<u>77,908</u>	<u>108,686</u>
	<u>4,015,561</u>	<u>3,714,909</u>
UNASSIGNED EXPENSES		
Employee benefits		
Workers' compensation insurance	152,255	190,974
Health insurance	2,961,157	2,720,485
Unemployment compensation	7,083	27,544
Disability insurance	127,915	174,533
Life insurance	23,364	24,502
Other	24,637	75,727
Insurance		
Liability and property insurance	<u>246,009</u>	<u>226,559</u>
	<u>3,542,420</u>	<u>3,440,324</u>
 Totals	 <u>\$7,557,981</u>	 <u>\$7,155,233</u>

**Skiff Medical Center
STATISTICS**

	Year ended June 30	
	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Medical and surgical	5,492	6,017
Obstetric	605	636
Coronary care	483	579
Swing bed, skilled care	515	414
Nursery	528	566
Hospice	<u>995</u>	<u>1,297</u>
Totals	<u>8,618</u>	<u>9,509</u>
RESPITE DAYS	<u>10</u>	<u>23</u>
ADMISSIONS		
Acute	2,091	2,132
Swing bed	<u>82</u>	<u>77</u>
Totals	<u>2,173</u>	<u>2,209</u>
DISCHARGES		
Acute	2,083	2,131
Swing bed	<u>85</u>	<u>76</u>
Totals	<u>2,168</u>	<u>2,207</u>
AVERAGE LENGTH OF STAY		
Acute	3.16	3.39
Swing bed	6.06	5.45
BEDS, ACUTE	68	68
OCCUPANCY PERCENT, ACUTE	26.51%	29.06%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$92,790</u>	<u>\$92,903</u>
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	<u>64</u>	<u>61</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Skiff Medical Center
Newton, Iowa

We have audited the financial statements of Skiff Medical Center as of and for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. 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, 2009 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
November 19, 2009

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

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, 2009**

Part II—Findings Related to Required Statutory Reporting

09-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

09-II-B TRAVEL EXPENSES

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

09-II-C BUSINESS TRANSACTIONS

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

09-II-D BOARD MINUTES

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

09-II-E 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.