

**Skiff Medical Center
Newton, Iowa**

FINANCIAL REPORT

June 30, 2010

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**Skiff Medical Center
OFFICIALS**

(Before January 2010)

Term expires

BOARD OF TRUSTEES

Officers

Gary Kahn, Chair (resigned effective November 12, 2009)	January, 2010
John Lee, Vice Chair (resigned effective November 12, 2009)	January, 2010
Debby Pence, Secretary	January, 2012

Members

Jeff King, Ph.D	January, 2012
Nancy Noth, Ph.D (resigned effective September 1, 2009)	January, 2012

INTERIM PRESIDENT AND CHIEF EXECUTIVE OFFICER

Francie Jahn (through November 2009)
Brett Altman (December 2009)

INTERIM CHIEF FINANCIAL OFFICER

Dave Brokaw (July 2009)
David Boyer (August 2009 to December 2009)

INTERIM VICE-PRESIDENT OF CLINICAL SERVICES

Susan Howell

(After December 2009)

Term expires

BOARD OF TRUSTEES

Officers

Debby Pence, Chair and Secretary (effective November 12, 2009)	January, 2012
Jeff King, Ph.D, Vice Chair (effective November 12, 2009)	January, 2012
Lois Vogel, Secretary (effective January 2010)	January, 2013

Members

Gary Richardson, MD	January, 2013
Dan Skokan (replaced Noth effective September 1, 2009)	January, 2012

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Steve Long (January 2010 to present)

CHIEF OPERATIONS OFFICER

Brett Altman (March 2010 to present)

CHIEF FINANCIAL OFFICER

Mike Anderson (January 2010 to present)

CHIEF NURSING OFFICER

Ann Polking (January 2010 through March 2010)
Mary Swoboda (April 2010 to present)

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, an enterprise fund of the City of Newton, Iowa, as of June 30, 2010 and 2009, 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 audits 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, 2010 and 2009, 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 December 5, 2010 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 5-11 and the schedule of funding progress for the retiree health plan and the budget and budgetary accounting schedule on pages 29-30 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 or the budget and budgetary accounting schedule.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
December 5, 2010

SKIFF MEDICAL CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Skiff Medical Center (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, 2010, 2009 and 2008. 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 \$3,626,000 to \$27,564,000 in Fiscal Year (FY) '10, following a decrease of \$3,921,000 in FY '09.
- Total assets whose use is limited increased \$403,000 during FY '10, following a \$2,943,000 decrease in FY '09.
- Total property and equipment, net of depreciation, decreased by \$2,225,000 in FY '10, following a decrease of \$1,227,000 in FY '09.
- Fund equity decreased by \$3,159,000 in FY '10 and decreased by \$3,365,000 in FY '09.
- Net patient service revenue decreased by \$3,675,000 to \$30,193,000 during FY '10. The decrease for fiscal year '09 was \$134,000.
- Operating expenses decreased by \$2,731,000 in FY '10 and by \$1,066,000 in FY '09.
- Total margin for FY 2010 was (10.0%), compared to (9.5%) for FY 2009.

Inpatient utilization (patient days) declined during the year 12.8%. Outpatient utilization (visits) also declined during the year by a total of 6.3%. Emergency room, surgery and laboratory all had decreases in utilization over the previous year. Provision for bad debt increased between FY '09 and FY '10 from \$1,829,000 to \$2,893,000.

The overall expense decrease during FY '10 was driven by reductions in volume and a reduction in force resulting in salary and benefit expense decreasing 14%. Due to reaching the end of the depreciation life for several pieces of technology-based equipment, depreciation expense decreased 3.7%.

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, 2010, 2009 and 2008, are presented in Table 1 below.

Table 1
Condensed Balance Sheets
(In Thousands)

	June 30, 2010	June 30, 2009	June 30, 2008	FY '09 to FY' 10 \$ Change	FY '08 to FY' 09 \$ Change	FY '09 to FY' 10 % Change	FY '08 to FY' 09 % Change
Current and other assets	\$10,340	\$11,742	\$14,436	(\$1,402)	(\$2,694)	(11.9)	(18.7)
Capital assets	\$17,224	\$19,449	\$20,676	(\$2,225)	(\$1,227)	(11.4)	(5.9)
Total Assets	\$27,564	\$31,191	\$35,112	(\$3,627)	(\$3,921)	(11.6)	(11.2)
Long-term debt outstanding	\$230	\$292	\$381	(\$62)	(\$89)	(21.2)	(23.3)
Other liabilities	\$2,494	\$2,900	\$3,366	(\$406)	(\$466)	(14.0)	(13.8)
Total liabilities	\$2,724	\$3,192	\$3,747	(\$468)	(\$555)	(14.7)	(14.8)
Invested in capital assets, net of related debt	\$16,932	\$19,068	\$20,052	(\$2,136)	(\$984)	(11.2)	(4.9)
Unrestricted	\$7,874	\$8,901	\$11,285	(\$1,027)	(\$2,384)	(11.5)	(21.1)
Restricted	\$34	\$30	\$27	\$4	\$3	13.3	11.1
Total fund equity	\$24,840	\$27,999	\$31,364	(\$3,159)	(\$3,365)	(11.3)	(10.7)

As can be seen in Table 1, fund equity decreased by \$3,159,000 to \$24.8 million in FY 2010. Fund equity at the end of FY '09 and FY '08 were \$27.9 million and \$31.4 million, respectively. The FY '10 decrease was due to decreases in patient receivables 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, 2010, 2009 and 2008.

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

	Year ended June 30,		
	2010	2009	2008
Net patient service revenue	\$30,193	\$33,868	\$34,002
Other operating revenue	1,436	1,572	1,543
Total revenue	31,629	35,440	35,545
Operating expenses:			
Nursing service	11,932	12,559	12,876
Other professional service	10,616	11,881	10,684
General service	2,864	3,368	3,548
Fiscal and administrative service and unassigned expenses	7,316	7,558	7,155
Provision for depreciation and amortization	2,452	2,545	2,582
Total operating expenses	35,180	37,911	36,845
Operating (loss)	(3,551)	(2,471)	(1,300)
Non-operating gain (loss)	392	(919)	378
Excess of revenues over expenses before contributions	(3,159)	(3,390)	(922)
Contributions	0	25	75
Changes in fund equity	(3,159)	(3,365)	(847)
Total fund equity, beginning	27,999	31,364	32,211
Total fund equity, ending	\$24,840	\$27,999	\$31,364

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in fund equity between June 30, 2010, June 30, 2009 and June 30, 2008.

Volume: Inpatient acute admissions (excluding normal newborns) for fiscal year 2010 were 1,929 compared to 2,091 in fiscal year 2009 and 2,132 in FY 2008. The acute average length of stay decreased to 3.01 as compared to 3.16 for the previous fiscal year. Total patient days decreased to 7,518 in FY 10 from 8,618 in FY 09 and 9,509 in FY 08.

Net Patient Service Revenue: Due to various factors in the economy, net patient service revenues decreased by \$3,675,000, or (11%) in comparison to fiscal year 2009. Outpatient revenue represented 61% of our gross patient service revenue and experienced 9.4% decrease for FY '10 and 10.9% growth for FY '09. Inpatient revenue, representing 33% of our gross patient service revenue, experienced a decline of (3.1%) for FY '10 following a decline of (6.4%) for FY '09. 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, 2010, 2009 and 2008.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2010	2009	2008
Medicare	43.8%	44.0%	45.0%
Wellmark / Blue Cross	20.4%	19.8%	20.7%
Commercial	20.4%	21.0%	20.3%
Medicaid	11.3%	11.1%	9.6%
Self Pay	4.1%	4.1%	4.4%
Total	100.0%	100.0%	100.0%

Other Operating Revenue: The decrease of \$136,000 in FY '10 was driven primarily by decreases in cafeteria and facilities management revenues. In the previous year, other operating revenue increased by \$29,000 due to increases in cafeteria and facilities management revenues.

Nursing Service Expenses: Lower patient volumes caused a decrease of \$627,000 or 5.0% in FY '10 following a decrease of \$317,000 or 2.5% in FY '09 nursing service expenses.

Other Professional Service Expenses: Expenses in this category showed a decrease of \$1,265,000 or 10.6% during FY '10. The decrease was primarily attributable to the decrease in employed physicians during FY 10 as compared to FY 09.

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 '10 was \$504,000 or 15% as compared to a decrease of \$180,000 or 5% in FY '09. These recent decreases were primarily the result of decreased supply and salary expenses in these areas.

Fiscal and Administrative Expenses: During FY '10, the fiscal and administrative expenses decreased \$242,000, or 3% after a \$403,000, or 6%, increase in FY'09. The decrease is primarily due to staffing reductions and employee health insurance claim reductions.

Non-operating Gain/ (Loss): Overall, the Medical Center realized a non-operating gain of \$392,000 in FY 10 and a loss of \$919,000 in FY '09. 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. The investment is adjusted monthly 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 2010, the Medical Center had invested \$17.2 million in capital assets as shown in Note 5. The Medical Center added \$0.2 million in capital assets during FY'10, but this increase was offset by depreciation on assets purchased in prior years, resulting in a net decrease of \$2.2 million in net capital assets. In FY'09, \$1.3 million in capital assets were added, but was also offset by increased depreciation.

The following table summarizes the Medical Center's capital assets as of June 30, 2010, 2009 and 2008.

Table 5

**Capital Assets
(In Thousands)**

	2010	2009	2008	Change from '09 to '10	Change from '08 to '09
Land	\$2,144	\$2,144	\$2,144	0	\$0
Land improvements	2,241	2,241	2,241	0	0
Buildings	20,884	20,884	20,592	0	292
Fixed equipment	6,859	6,791	6,723	68	68
Major movable equipment	14,539	14,031	12,966	508	1,065
Construction in progress	0	348	456	(348)	(108)
Assets held under capital lease obligations	3,012	3,012	3,012	0	0
Subtotal	49,679	49,451	48,135	228	1,316
Less accumulated depreciation	(29,923)	(27,576)	(25,246)	(2,347)	(2,330)
Less accumulated amortization on assets held under capital leases	(2,532)	(2,427)	(2,212)	(105)	(215)
Property, plant and equipment, net	\$17,224	\$19,448	\$20,676	(\$2,224)	(\$1,229)

DEBT ADMINISTRATION

Long-Term Debt

During the 2008 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 8% of the Medical Center's total liabilities as of June 30, 2010, down from 9% at the prior fiscal year-end. The decrease was due to the continued pay down of several lease obligations in FY '10.

Capital Leases

At year-end, the Medical Center had \$292,000 in short- and long-term capital lease obligations. This has decreased \$88,000 from fiscal year-end 2009. 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 10.3% of the Medical Center's total liabilities as of fiscal year-end '10, compared to 11.9% at June 30, 2009.

ECONOMIC FACTORS

The financial performance of Skiff Medical Center during FY 2010 was poor. A variety of circumstances including the poor economy, physician turnover, very public turmoil in leadership all contributed to this performance. While many of the issues affecting financial performance have been addressed, the underlying concerns regarding the local and national economy persist:

- Newton has still not recovered from the loss of the Maytag corporation. Retirees of the company will see a change in insurance coverage for calendar year 2011 that may impact their ability to engage the health care system.
- Jasper County has the fifth highest rate of unemployment in the state and although there are hopeful signs on the horizon with new businesses entering the area, the unemployment rate is unlikely to change quickly.
- Demographics continue to show that while the overall population is stagnant, older population is growing, number of kids of school age is declining, lower income population is increasing, middle class to upper middle class is declining.
- Skiff Medical Center's market share in Jasper County peaked in 2005 and has fallen each year since that time. It may be difficult to reverse the downward trends in volumes, thus the result of growth efforts such as physician recruitment might be more to "flatten the curve" rather than change the direction in the short term.
- The public's perception of Skiff was harmed by the events of the last few years and will take time to restore.

Organization leadership has chosen to address these issues via the implementation of a new strategic plan. This plan contains the following strategic focus areas:

1. Put people first by fostering a culture of ownership focused on our core values, a shared hopefulness on the part of each caregiver, and a desire to make Skiff the best possible place to work and provide patient care.
2. Remain a full-service hospital but evaluate individual services for potential growth or replacement based on environmental trends, community needs, and financial performance.

3. Enhance physician and public confidence by improving our ability to care for higher acuity patients; developing more advanced diagnostic capabilities, introducing new out-patient based therapeutic services and specialties; and ensuring physician inclusion in our decision making processes.
4. Improve the effectiveness and efficiency of our operations through the implementation of measurement tools and the use of national best practices, thus creating a sense of urgency throughout Skiff in regards to the importance of being the best at what we do.
5. Be intentional in telling the Skiff story to the community and focus our efforts on increasing physician referrals, building good will, and increasing awareness about our service offerings.

We believe that this plan which focuses on creating a culture of ownership, growing volumes, and increasing efficiency of operations will place the hospital in a good position for long term vitality.

It is clear that FY 11 will be another financially challenging year, but positive steps are being taken and the financial situation will slowly turn around.

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, 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	
	2010	2009
CURRENT ASSETS		
Cash	\$ 1,643,744	\$ 912,694
Assets whose use is limited, required for current liabilities	300,000	-
Patient receivables, less allowances for contractual adjustments and uncollectibles	3,450,195	5,915,009
Estimated third-party payor settlements	327,756	223,528
Inventories	466,828	504,324
Prepaid expenses	233,618	295,986
Other current assets	<u>116,095</u>	<u>191,253</u>
Total current assets	<u>6,538,236</u>	<u>8,042,794</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board		
For plant replacement and expansion		
Cash	194,790	187,687
Certificates of deposit	300,000	600,000
Marketable securities	3,273,826	2,881,682
Accrued interest receivable	329	577
For self-funded health plan claims fluctuation		
Certificates of deposit	<u>300,000</u>	<u>-</u>
	4,068,945	3,669,946
Restricted by donors for specific purpose		
Certificate of deposit	<u>33,500</u>	<u>29,500</u>
Total assets whose use is limited	4,102,445	3,699,446
Less assets whose use is limited and that are required for current liabilities	<u>300,000</u>	<u>-</u>
Noncurrent assets whose use is limited	<u>3,802,445</u>	<u>3,699,446</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation and amortization	49,678,694	49,451,513
Total property and equipment	<u>32,454,996</u>	<u>30,003,184</u>
	<u>17,223,698</u>	<u>19,448,329</u>
Totals	<u>\$27,564,379</u>	<u>\$31,190,569</u>

See Notes to Financial Statements.

	LIABILITIES AND FUND EQUITY	
	June 30	
	2010	2009
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 62,217	\$ 88,051
Accounts payable, trade	688,595	945,598
Accrued payroll and payroll taxes	397,156	408,937
Accrued employee benefits	1,346,682	1,457,095
	<u>2,494,650</u>	<u>2,899,681</u>
LONG-TERM DEBT		
Obligations under capital leases	292,052	380,103
Less current maturities	<u>62,217</u>	<u>88,051</u>
Total long-term debt	<u>229,835</u>	<u>292,052</u>
COMMITMENT AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	16,931,646	19,068,226
Restricted, nonexpendable permanent endowment	33,500	29,500
Unrestricted	<u>7,874,748</u>	<u>8,901,110</u>
Total fund equity	<u>24,839,894</u>	<u>27,998,836</u>
	<u>27,564,379</u>	<u>31,190,569</u>
Totals	<u>\$27,564,379</u>	<u>\$31,190,569</u>

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

	Year ended June 30	
	2010	2009
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$2,892,978; 2009 \$1,829,003	\$30,193,264	\$33,868,364
OTHER REVENUE	<u>1,435,829</u>	<u>1,571,776</u>
Total revenue	<u>31,629,093</u>	<u>35,440,140</u>
OPERATING EXPENSES		
Nursing service	11,931,697	12,559,696
Other professional service	10,615,706	11,880,965
General service	2,864,283	3,367,870
Fiscal and administrative service and unassigned expenses	7,316,471	7,557,981
Provision for depreciation and amortization	<u>2,451,812</u>	<u>2,544,832</u>
Total operating expenses	<u>35,179,969</u>	<u>37,911,344</u>
Operating (loss)	<u>(3,550,876)</u>	<u>(2,471,204)</u>
NONOPERATING GAINS (LOSSES)		
Investment income	84,727	119,873
Interest expense	(16,395)	(24,596)
Net increase (decrease) in the fair value of investments	349,313	(962,020)
Unrestricted contributions	4,035	10,710
Transfers from (to) related foundation	29,870	(63,130)
(Loss) on disposal of assets	<u>(59,616)</u>	<u>—</u>
Total nonoperating gains (losses)	<u>391,934</u>	<u>(919,163)</u>
(Deficiency) of revenues over expenses before restricted contributions	<u>(3,158,942)</u>	<u>(3,390,367)</u>
RESTRICTED CONTRIBUTIONS		
Change in fund equity	<u>—</u>	<u>25,000</u>
	<u>(3,158,942)</u>	<u>(3,365,367)</u>
TOTAL FUND EQUITY		
Beginning	<u>27,998,836</u>	<u>31,364,203</u>
Ending	<u>\$24,839,894</u>	<u>\$27,998,836</u>

**Skiff Medical Center
STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$32,553,850	\$33,315,154
Cash paid to suppliers for goods and services	(15,628,716)	(14,943,075)
Cash paid to employees for services	(17,378,774)	(20,748,583)
Home health services grants received	372,258	400,538
Contributions received for expenses of hospice services	110,056	113,589
Other operating revenue received	<u>1,028,673</u>	<u>1,076,237</u>
Net cash provided by (used in) operating activities	<u>1,057,347</u>	<u>(786,140)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	4,035	10,710
Transfers from (to) related foundation	29,870	(63,130)
Endowments received	<u>4,000</u>	<u>2,600</u>
Net cash provided by (used in) noncapital financing activities	<u>37,905</u>	<u>(49,820)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(88,051)	(244,152)
Interest paid on long-term debt	(16,395)	(24,596)
Acquisition of property and equipment	(286,797)	(1,316,770)
Contributions received, restricted for purchase of property and equipment	<u>—</u>	<u>22,400</u>
Net cash (used in) capital and related financing activities	<u>(391,243)</u>	<u>(1,563,118)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(633,500)	(3,153,900)
Proceeds from maturities of certificates of deposit	629,500	5,151,300
Purchase of marketable securities	(1,559,222)	(2,399,719)
Proceeds from sale of marketable securities	1,512,391	2,246,902
Interest and dividends received	<u>84,975</u>	<u>148,149</u>
Net cash provided by investing activities	<u>34,144</u>	<u>1,992,732</u>
NET INCREASE (DECREASE) IN CASH	738,153	(406,346)
CASH		
Beginning	<u>1,100,381</u>	<u>1,506,727</u>
Ending	<u>\$ 1,838,534</u>	<u>\$ 1,100,381</u>

See Notes to Financial Statements.

Skiff Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$(3,550,876)	\$ (2,471,204)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,451,812	2,544,832
Change in assets and liabilities		
Patient receivables	2,464,814	(243,150)
Estimated third-party payor settlements	(104,228)	(309,683)
Inventories	37,496	(51,852)
Prepaid expenses	62,368	(48,281)
Other current assets	75,158	18,588
Accounts payable, trade	(257,003)	485,647
Accrued payroll and payroll taxes	(11,781)	(676,084)
Accrued employee benefits	<u>(110,413)</u>	<u>(34,953)</u>
Net cash provided by (used in) operating activities	<u>\$1,057,347</u>	<u>\$ (786,140)</u>
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS		
TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,643,744	\$ 912,694
Assets whose use is limited		
By board for plant replacement and expansion, cash	<u>194,790</u>	<u>187,687</u>
Total per statement of cash flows	<u>\$1,838,534</u>	<u>\$1,100,381</u>

See Notes to Financial Statements.

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Medical Center is a municipal hospital and is an enterprise fund 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.

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

The Medical Center has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs). The Organization has elected not to apply FASB guidance subsequent to 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. The net increase in the fair value of investments which includes realized and unrealized gains and losses on investments, is also reported as nonoperating gains.

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. Property and equipment is depreciated or amortized using the following asset lives:

Land improvements	5 to 56 years
Buildings	5 to 40 years
Fixed equipment	5 to 30 years
Major movable equipment	3 to 20 years

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.

When the Medical Center has both restricted and unrestricted resources available to finance a particular program or project, it is the Medical Center's policy to use restricted resources before unrestricted resources.

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.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2010 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, 2010 are as follows:

	<u>Fair value</u>	<u>Maturity</u>
Mutual funds	\$3,273,826	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	
	2010	2009
Receivable from patients	\$1,798,873	\$ 3,419,864
Receivable from insurance carriers	2,711,249	3,110,150
Receivable from Medicare	2,197,118	3,069,211
Receivable from Medicaid	<u>560,291</u>	<u>922,446</u>
Total patient receivables	7,267,531	10,521,671
Less allowances for contractual adjustments and uncollectibles	<u>3,817,336</u>	<u>4,606,662</u>
 Net patient receivables	 <u>\$3,450,195</u>	 <u>\$ 5,915,009</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, 2010, the Medical Center'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, 2010, 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, 2009.

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 Medical Center'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 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2010</u>		<u>June 30, 2009</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	1,808,863	2,241,002	1,708,837
Buildings	20,883,653	11,449,846	20,883,653	10,604,498
Fixed equipment	6,858,643	5,135,488	6,791,275	4,830,980
Major movable equipment including equipment under capital lease 2010 and 2009 \$3,012,585	17,551,223	14,060,799	17,043,253	12,858,869
Construction in progress	<u>—</u>	<u>—</u>	<u>348,157</u>	<u>—</u>
Totals	<u>\$49,678,694</u>	<u>\$32,454,996</u>	<u>\$49,451,513</u>	<u>\$30,003,184</u>

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$2,346,312 and \$2,330,123, respectively. Amortization expense for assets held under capital leases for the years ended June 30, 2010 and 2009 amounted to \$105,500 and \$214,709, respectively. Accumulated amortization on these assets totaled \$2,532,199 and \$2,426,699 at June 30, 2010 and 2009, respectively.

A summary of changes in property and equipment for the year ended June 30, 2010 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	20,883,653	—	—	—	20,883,653
Fixed equipment	6,791,275	67,368	—	—	6,858,643
Major movable equipment including equipment under capital lease	17,043,253	219,429	—	288,541	17,551,223
Construction in progress	<u>348,157</u>	<u>—</u>	<u>(59,616)</u>	<u>(288,541)</u>	<u>—</u>
Totals	49,451,513	286,797	(59,616)	—	49,678,694
Less accumulated depreciation and amortization	<u>(30,003,184)</u>	<u>(2,451,812)</u>	<u>—</u>	<u>—</u>	<u>(32,454,996)</u>
Net property and equipment	<u>\$19,448,329</u>	<u>\$(2,165,015)</u>	<u>\$(59,616)</u>	<u>\$ —</u>	<u>\$17,223,698</u>

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

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>(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>(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>

NOTE 6 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 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Medical Center 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 7 OTHER POST EMPLOYMENT BENEFITS (OPEB) (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, 2010, 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	69
Adjustment to annual required contribution	<u>(116)</u>
Annual OPEB cost	38,238
Contributions made	<u>45,484</u>
Decrease in net OPEB obligation	(7,246)
Net OPEB obligation, beginning of year	<u>2,299</u>
 Net OPEB benefit, end of year	 <u>\$ (4,947)</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 benefit 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, 2010.

For the year ended June 30, 2010, the Medical Center contributed \$45,484 to the medical plan. Plan members eligible for benefits contributed \$47,129, or 51% 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 benefit as of June 30, 2010 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 benefit</u>
June 30, 2010	\$38,238	119%	\$ (4,947)

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, 2010, there were no trust fund assets.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 OTHER POST EMPLOYMENT BENEFITS (OPEB) (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 8 LONG-TERM DEBT

Long-term debt at June 30, 2010 and 2009 is summarized as follows:

	2010	2009
Obligations under capital leases	\$ 292,052	\$ 380,103
Less current maturities	62,217	88,051
Long-term debt, net of current maturities	\$ 229,835	\$ 292,052

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.

Three of the Medical Center's four capital lease obligations were paid in full during the year ended June 30, 2010. The remaining lease requires monthly payments of \$6,279, with the lease term expiring in November 2014.

**Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 LONG-TERM DEBT (continued)

Obligations under capital leases (continued)

Principal and interest maturities of the debt outstanding at June 30, 2010 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 62,217	\$ 13,127	\$ 75,344
2012	65,400	9,944	75,344
2013	68,746	6,598	75,344
2014	72,057	3,287	75,344
2015	<u>23,632</u>	<u>286</u>	<u>23,918</u>
Totals	<u>\$ 292,052</u>	<u>\$ 33,242</u>	<u>\$ 325,294</u>

A summary of changes in long-term debt for the year ended June 30, 2010 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>\$ 380,103</u>	<u>\$ —</u>	<u>\$ 88,051</u>	<u>\$ 292,052</u>	<u>\$ 62,217</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>

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, 2010 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 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 4.30% of their annual salary and the Medical Center is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$1,079,219, \$1,206,065 and \$1,128,806, 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, 2010 and 2009 was \$2,262,598 and \$2,961,157, 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 Medical Center's ultimate liability may exceed or be less than amounts accrued.

During the year ended June 30, 2010, the Board of Trustees designated \$300,000 as assets whose use is limited for the payment of claims incurred under the self-insurance program.

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, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	\$ <u>397,506</u>	\$ <u>708,188</u>
Equivalent percentage of charity care patients to all patients served	<u>0.6%</u>	<u>1.0%</u>

NOTE 13 RELATED PARTY TRANSACTIONS

Because of the existence of common trustees and other factors, Skiff Medical Center and Skiff Medical Center Foundation are related parties. The Foundation was formed to promote the recruitment of medical personnel to practice in Jasper County and the Medical Center for the purpose of maintaining and improving the medical-health care services available to all residents of Jasper County, Iowa. The Foundation contributed \$25,000 to the Medical Center during the year ended June 30, 2009, for the Medical Center's hospice wing. Additionally, \$29,870 and \$(63,130) was transferred from (to) the Foundation during the years ended June 30, 2010 and 2009, respectively, and has been included in nonoperating gains (losses).

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 14 MEDICAL CENTER RISK MANAGEMENT

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 15 NONEXPENDABLE PERMANENT ENDOWMENT

Nonexpendable permanent endowment consists of contributions from the Geisler Penquite Charitable Corporation. The funds are currently invested in a certificate of deposit. The interest from the funds held is to be used for hospice programs as the Board of Trustees shall direct.

NOTE 16 RISKS AND UNCERTAINTIES

Laws and regulations

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Medical Center is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Medical Center's financial position.

Regulatory investigations

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of the Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such, the Medical Center may be subject to such an audit at some time in the future. The final impact of this program cannot be quantified at this time.

Current economic conditions

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Skiff Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 16 RISKS AND UNCERTAINTIES (continued)

Current economic conditions (continued)

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for patient receivables that could negatively impact the Medical Center's ability to maintain sufficient liquidity.

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

Required Supplementary Information

<u>Year ended June 30</u>	<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>
2009	July 1, 2008	\$ <u>—</u>	\$ <u>416,532</u>	\$ <u>416,532</u>	<u>0.0%</u>	\$ <u>19,942,000</u>	<u>2.1%</u>
2010	July 1, 2008	\$ <u>—</u>	\$ <u>416,532</u>	\$ <u>416,532</u>	<u>0.0%</u>	\$ <u>17,377,000</u>	<u>2.4%</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.

**Skiff Medical Center
BUDGET AND BUDGETARY ACCOUNTING SCHEDULE**

Required Supplementary Information

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, 2010 totals	<u>\$35,179,696</u>	<u>\$ 16,395</u>	<u>\$35,196,091</u>	<u>\$38,500,000</u>

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, 2010 and 2009 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
December 5, 2010

**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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 4,679,287	\$ 5,942,704	64.4%	56.5%
31 - 60 days	808,964	1,203,427	11.1	11.5
61 - 90 days	447,301	755,712	6.2	7.2
91 - 120 days	442,537	435,822	6.1	4.1
121 - 365 days	587,376	1,528,425	8.1	14.5
Over one year	<u>302,066</u>	<u>655,581</u>	<u>4.1</u>	<u>6.2</u>
Totals	<u>7,267,531</u>	<u>10,521,671</u>	<u>100.0%</u>	<u>100.0%</u>
Allowances				
Contractual				
Medicare	1,284,938	1,703,665		
Medicaid	284,906	426,667		
Blue Cross	494,774	566,773		
Other	566,981	350,205		
Uncollectibles	<u>1,185,737</u>	<u>1,559,352</u>		
Total allowances	<u>3,817,336</u>	<u>4,606,662</u>		
Totals	<u>\$ 3,450,195</u>	<u>\$ 5,915,009</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$1,559,352	\$1,176,140		
ADD				
Provision for bad debts	2,892,978	1,829,003	9.9%	5.5%
Recoveries of accounts previously written off	394,089	351,997	1.3	1.1
LESS				
Accounts written off	<u>(3,660,682)</u>	<u>(1,797,788)</u>	12.5	6.0
BALANCE , ending	<u>\$1,185,737</u>	<u>\$1,559,352</u>		
COLLECTION FEES	<u>\$ 177,689</u>	<u>\$ 54,836</u>	.6	.2

**Skiff Medical Center
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
DAILY PATIENT SERVICES		
Medical and surgical	\$ 4,881,184	\$ 5,527,973
Obstetric	541,000	642,384
Coronary care	529,802	824,596
Swing bed		
Skilled care	150,400	206,060
Nursery	297,660	325,335
	<u>6,400,046</u>	<u>7,526,348</u>
OTHER NURSING SERVICES		
Operating rooms	9,741,352	9,193,882
Recovery rooms	1,073,112	1,223,373
Delivery and labor rooms	551,240	608,747
Emergency services	6,443,051	7,321,114
Home health services		
Skilled nursing	1,091,283	1,105,535
Aides	594,200	628,122
Other	73,696	92,517
Hospice services	1,831,336	1,901,798
	<u>21,399,270</u>	<u>22,075,088</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	4,816,954	5,378,207
Blood transfusions	268,457	300,387
Electrocardiology and cardiovascular	1,350,573	1,483,687
Sleep disorder	293,695	353,474
Electroencephalography	8,596	26,743
Radiology and mammography	3,256,046	3,486,356
CT scans	4,222,227	4,508,963
Nuclear scans and ultrasound	3,011,975	3,420,811
Magnetic resonance imaging	2,168,155	2,728,752
Pharmacy	5,449,631	5,292,300
Intravenous therapy	236,287	166,751
Anesthesiology	3,547,407	4,005,980
Physical therapy	2,089,120	2,011,059
Occupational therapy	265,844	153,109
Respiratory therapy	1,487,565	1,884,586
Speech therapy	358,915	289,060
Audiology	327,508	283,989
Cardiac rehabilitation	195,136	275,767
Enterostomal	11,944	13,354
Occupational health	224,053	273,249
Alternative health services	11,785	26,701
Clinics	2,382,801	2,612,158
Sports rehabilitation	668,805	679,645
	<u>36,653,479</u>	<u>39,655,088</u>
Totals	64,452,795	69,256,524
Charity care charges foregone, based on established rates	<u>(397,506)</u>	<u>(708,188)</u>
Total gross patient service revenue	64,055,289	68,548,336
Provisions for contractual adjustments and bad debts	<u>(33,862,025)</u>	<u>(34,679,972)</u>
Total net patient service revenue	<u>\$30,193,264</u>	<u>\$33,868,364</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
\$ 4,713,257	\$ 5,461,860	\$ 167,927	\$ 66,113	\$ -	\$ -
538,767	636,052	2,233	6,332	-	-
529,581	824,547	221	49	-	-
150,400	206,060	-	-	-	-
297,660	325,335	-	-	-	-
<u>6,229,665</u>	<u>7,453,854</u>	<u>170,381</u>	<u>72,494</u>	<u>-</u>	<u>-</u>
4,797,524	3,156,584	4,943,828	6,037,298	-	-
279,455	244,953	793,657	978,420	-	-
294,945	302,181	256,295	306,566	-	-
1,092,483	1,421,305	5,350,568	5,899,809	-	-
-	-	-	-	1,091,283	1,105,535
-	-	-	-	594,200	628,122
-	-	-	-	73,696	92,517
-	-	-	-	<u>1,831,336</u>	<u>1,901,798</u>
<u>6,464,407</u>	<u>5,125,023</u>	<u>11,344,348</u>	<u>13,222,093</u>	<u>3,590,515</u>	<u>3,727,972</u>
1,602,762	1,815,688	3,214,192	3,562,519	-	-
159,911	165,991	108,546	134,396	-	-
338,545	376,699	1,012,028	1,106,988	-	-
-	-	293,695	353,474	-	-
2,865	9,074	5,731	17,669	-	-
351,190	383,515	2,904,856	3,102,841	-	-
862,435	1,009,140	3,359,792	3,499,823	-	-
193,164	243,706	2,818,811	3,177,105	-	-
173,756	269,125	1,994,399	2,459,627	-	-
2,245,657	2,406,586	3,203,974	2,885,714	-	-
168,721	121,058	67,566	45,693	-	-
975,395	909,543	2,572,012	3,096,437	-	-
243,167	210,012	1,688,138	1,674,510	157,815	126,537
106,937	15,939	88,932	90,344	69,975	46,826
1,330,576	1,628,203	156,989	256,383	-	-
25,336	21,888	318,529	264,127	15,050	3,045
16,952	18,468	310,556	265,521	-	-
-	-	195,136	275,767	-	-
-	-	11,944	13,354	-	-
-	-	224,053	273,249	-	-
-	-	11,785	26,701	-	-
-	-	2,382,801	2,612,158	-	-
-	-	668,805	679,645	-	-
<u>8,797,369</u>	<u>9,604,635</u>	<u>27,613,270</u>	<u>29,874,045</u>	<u>242,840</u>	<u>176,408</u>
<u>\$21,491,441</u>	<u>\$22,183,512</u>	<u>\$39,127,999</u>	<u>\$43,168,632</u>	<u>\$3,833,355</u>	<u>\$3,904,380</u>

Skiff Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$16,908,466	\$18,776,167
Medicaid	4,848,847	4,876,366
Blue Cross	5,137,271	5,145,209
Commercial Insurance	3,693,198	3,544,207
Provision for bad debts	2,892,978	1,829,003
Administrative adjustments	<u>381,265</u>	<u>509,020</u>
 Totals	 <u>\$33,862,025</u>	 <u>\$34,679,972</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Revenues for expenses of home health services		
Jasper County	\$ 156,527	\$ 156,370
Iowa State Department of Health and others	<u>215,731</u>	<u>244,168</u>
Subtotals	372,258	400,538
 Contributions for expenses of hospice services	 110,056	 113,584
Cafeteria, diet instructions and dietary consulting services	244,871	291,941
Facilities management	314,670	349,036
Lifeline rental	114,709	113,811
Other	216,335	212,739
Pharmacy, employee, net	-	693
Respite	-	1,850
Clinic rental, net of expense	<u>62,930</u>	<u>87,584</u>
 Totals	 <u>\$1,435,829</u>	 <u>\$1,571,776</u>

**Skiff Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
ADMINISTRATIVE		
Salaries	\$ 438,266	\$ 701,002
Payroll taxes	63,411	96,095
Purchased services	105,000	70,523
Supplies and expenses	<u>31,465</u>	<u>28,618</u>
	<u>638,142</u>	<u>896,238</u>
MEDICAL AND SURGICAL		
Salaries	1,405,918	1,697,017
Payroll taxes	195,901	231,859
Purchased services	58,583	186,620
Supplies and expenses	<u>105,304</u>	<u>131,533</u>
	<u>1,765,706</u>	<u>2,247,029</u>
OBSTETRIC, NURSERY, DELIVERY AND LABOR		
Salaries	630,311	614,946
Payroll taxes	87,356	83,088
Purchased services	204,731	199,475
Supplies and expenses	<u>83,369</u>	<u>61,385</u>
	<u>1,005,767</u>	<u>958,894</u>
CORONARY CARE		
Salaries	181,725	178,752
Payroll taxes	25,317	24,527
Purchased services	148,668	154,682
Supplies and expenses	<u>7,283</u>	<u>12,933</u>
	<u>362,993</u>	<u>370,894</u>
OPERATING AND RECOVERY ROOMS		
Salaries	882,393	972,784
Payroll taxes	119,122	131,969
Purchased services	768	-
Supplies and expenses	<u>1,756,831</u>	<u>1,327,346</u>
	<u>2,759,114</u>	<u>2,432,099</u>
CENTRAL SERVICES		
Salaries	65,333	75,111
Payroll taxes	9,118	10,151
Supplies and expenses	<u>52,695</u>	<u>93,851</u>
	<u>127,146</u>	<u>179,113</u>
EMERGENCY SERVICES		
Salaries	2,155,150	2,449,171
Payroll taxes	253,354	274,207
Professional fees	233,863	107,138
Supplies and expenses	<u>144,183</u>	<u>132,452</u>
	<u>2,786,550</u>	<u>2,962,968</u>
HOME HEALTH SERVICES		
Salaries	1,034,357	1,049,320
Payroll taxes	140,231	137,940
Supplies and expenses	<u>181,954</u>	<u>170,433</u>
	<u>1,356,542</u>	<u>1,357,693</u>
HOSPICE SERVICES		
Salaries	789,216	843,993
Payroll taxes	107,319	115,209
Supplies and expenses	<u>233,202</u>	<u>195,566</u>
	<u>1,129,737</u>	<u>1,154,768</u>
Totals	<u>\$11,931,697</u>	<u>\$12,559,696</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
LABORATORY		
Salaries	\$ 648,001	\$ 706,767
Payroll taxes	88,167	95,927
Professional fees	191,985	220,170
Blood	200,999	224,310
Supplies and expenses	<u>348,708</u>	<u>348,922</u>
	<u>1,477,860</u>	<u>1,596,096</u>
ELECTROCARDIOLOGY		
Salaries	19,012	19,691
Payroll taxes	2,630	2,675
Professional fees	17,415	25,549
Supplies and expenses	<u>2,511</u>	<u>2,988</u>
	<u>41,568</u>	<u>50,903</u>
SLEEP DISORDER		
Salaries	3,035	2,885
Payroll taxes	410	378
Professional fees	<u>91,500</u>	<u>96,750</u>
	<u>94,945</u>	<u>100,013</u>
ELECTROENCEPHALOGRAPHY		
Professional fees	<u>2,240</u>	<u>3,080</u>
RADIOLOGY		
Salaries	938,565	990,314
Payroll taxes	127,530	132,871
Purchased services	-	3,632
Supplies and expenses	544,863	550,785
Professional fees	<u>72,557</u>	<u>71,055</u>
	<u>1,683,515</u>	<u>1,748,657</u>
PHARMACY		
Salaries	371,506	390,610
Payroll taxes	49,349	51,350
Drugs	987,296	995,873
Intravenous solutions	31,565	4,391
Supplies and expenses	<u>35,707</u>	<u>26,853</u>
	<u>1,475,423</u>	<u>1,469,077</u>
ANESTHESIOLOGY		
Salaries	649,684	773,479
Payroll taxes	70,735	90,280
Professional fees	91,854	67,229
Supplies and expenses	<u>52,181</u>	<u>53,502</u>
	<u>864,454</u>	<u>984,490</u>
PHYSICAL THERAPY		
Salaries	675,154	729,412
Payroll taxes	93,542	97,311
Supplies and expenses	<u>44,610</u>	<u>60,242</u>
	<u>813,306</u>	<u>886,965</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
OCCUPATIONAL THERAPY		
Salaries	\$ 66,305	\$ 42,529
Payroll taxes	8,564	6,108
Purchased services	5,578	550
Supplies and expenses	<u>1,792</u>	<u>3,722</u>
	<u>82,239</u>	<u>52,909</u>
RESPIRATORY THERAPY		
Salaries	266,233	274,430
Payroll taxes	36,348	36,696
Supplies and expenses	<u>36,035</u>	<u>45,440</u>
	<u>338,616</u>	<u>356,566</u>
SPEECH THERAPY		
Salaries	46,094	64,505
Payroll taxes	4,707	8,869
Purchased services	85,579	44,640
Supplies and expenses	<u>1,240</u>	<u>1,563</u>
	<u>137,620</u>	<u>119,577</u>
AUDIOLOGY		
Salaries	64,572	62,063
Payroll taxes	8,634	8,427
Supplies and expenses	<u>115,930</u>	<u>102,766</u>
	<u>189,136</u>	<u>173,256</u>
CARDIAC REHABILITATION		
Salaries	93,426	106,462
Payroll taxes	12,905	15,549
Supplies and expenses	<u>464</u>	<u>3,620</u>
	<u>106,795</u>	<u>125,631</u>
ENTEROSTOMAL		
Salaries	40,659	69,398
Payroll taxes	6,136	9,321
Professional fees	<u>191</u>	<u>545</u>
	<u>46,986</u>	<u>79,264</u>
OCCUPATIONAL HEALTH		
Salaries	262,107	348,880
Payroll taxes	35,806	45,626
Physicians' fees	-	22,400
Supplies and expenses	<u>18,061</u>	<u>77,103</u>
	<u>315,974</u>	<u>494,009</u>
ALTERNATIVE HEALTH SERVICES		
Salaries	14,742	41,971
Payroll taxes	2,196	5,736
Supplies and expenses	<u>1,422</u>	<u>2,007</u>
	<u>18,360</u>	<u>49,714</u>
CLINICS		
Salaries	1,565,819	1,993,836
Payroll taxes	149,885	212,554
Supplies and expenses, net	<u>275,345</u>	<u>357,630</u>
	<u>1,991,049</u>	<u>2,564,020</u>

Skiff Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2010	2009
SPORTS REHABILITATION		
Salaries	\$ 177,124	\$ 233,173
Payroll taxes	24,786	30,977
Supplies and expenses	16,445	21,014
	218,355	285,164
SOCIAL SERVICES		
Salaries	166,771	181,124
Payroll taxes	22,757	24,540
Supplies and expenses	11,464	9,298
	200,992	214,962
HEALTH INFORMATION MANAGEMENT		
Salaries	402,680	417,517
Payroll taxes	54,051	56,451
Supplies and expenses	59,542	52,644
	516,273	526,612
Totals	\$10,615,706	\$11,880,965

**Skiff Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
NUTRITION/WELLNESS		
Salaries	\$ 581,900	\$ 708,100
Payroll taxes	78,659	94,904
Food	282,612	343,132
Supplies and expenses	<u>24,391</u>	<u>26,354</u>
	<u>967,562</u>	<u>1,172,490</u>
OPERATION OF PLANT		
Salaries	331,047	410,020
Payroll taxes	45,039	55,312
Repairs and maintenance	170,787	205,684
Utilities	744,847	846,823
Supplies and expenses	<u>18,843</u>	<u>11,467</u>
	<u>1,310,563</u>	<u>1,529,306</u>
HOUSEKEEPING		
Salaries	306,528	346,367
Payroll taxes	42,130	47,446
Supplies and expenses	<u>66,769</u>	<u>71,196</u>
	<u>415,427</u>	<u>465,009</u>
LAUNDRY AND LINEN		
Salaries	134,035	148,771
Payroll taxes	17,974	20,444
Supplies and expenses	<u>18,722</u>	<u>13,423</u>
	<u>170,731</u>	<u>182,638</u>
OUTREACH		
Salaries	-	13,869
Payroll taxes	-	1,893
Supplies and expenses	<u>-</u>	<u>2,665</u>
	<u>-</u>	<u>18,427</u>
 Totals	 <u>\$2,864,283</u>	 <u>\$3,367,870</u>

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

	Year ended June 30	
	2010	2009
FISCAL AND ADMINISTRATIVE SERVICE		
Salaries	\$1,959,325	\$2,404,230
Payroll taxes	253,924	280,296
Communications	87,748	87,901
Supplies and purchased services	1,588,777	793,934
Professional fees	251,782	271,883
Training and education	65,311	120
Collection fees	177,689	54,836
Dues, subscriptions and licenses	46,009	44,453
Other expenses	<u>117,466</u>	<u>77,908</u>
	<u>4,548,031</u>	<u>4,015,561</u>
UNASSIGNED EXPENSES		
Employee benefits		
Workers' compensation insurance	119,346	152,255
Health insurance	2,262,598	2,961,157
Unemployment compensation	40,228	7,083
Disability insurance	132,365	127,915
Life insurance	20,959	23,364
Other	10,442	24,637
Insurance		
Liability and property insurance	<u>182,502</u>	<u>246,009</u>
	<u>2,768,440</u>	<u>3,542,420</u>
 Totals	 <u>\$7,316,471</u>	 <u>\$7,557,981</u>

**Skiff Medical Center
STATISTICS**

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Medical and surgical	4,981	5,492
Obstetric	526	605
Coronary care	311	483
Swing bed, skilled care	376	515
Nursery	484	528
Hospice	<u>840</u>	<u>995</u>
Totals	<u>7,518</u>	<u>8,618</u>
RESPIRE DAYS	<u>—</u>	<u>10</u>
ADMISSIONS		
Acute	1,929	2,091
Swing bed	<u>81</u>	<u>82</u>
Totals	<u>2,010</u>	<u>2,173</u>
DISCHARGES		
Acute	1,932	2,083
Swing bed	<u>80</u>	<u>85</u>
Totals	<u>2,012</u>	<u>2,168</u>
AVERAGE LENGTH OF STAY		
Acute	3.01	3.16
Swing bed	4.70	6.06
BEDS, ACUTE	48	48
OCCUPANCY PERCENT, ACUTE	33.21%	37.56%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$82,721</u>	<u>\$92,790</u>
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	<u>42</u>	<u>64</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, 2010, and have issued our report thereon dated December 5, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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, 2010 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
December 5, 2010

**Skiff Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

Part I—Findings Related to the Financial Statements

No matters regarding deficiencies, 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, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A CERTIFIED BUDGET

Expenditures during the year ended June 30, 2010 did not exceed the amount budgeted.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

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

10-II-E BOARD MINUTES

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

10-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.